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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Spending Authority Recordings In Certain Revolving Funds Impair Congressional Budget Control

The Congress authorizes some Federal agencies to borrow money from Treasury or non-Treasury sources to finance their own programs of extending loans to eligible persons and organizations. The "budget authority" for many revolving loan programs represents authorized net borrowings which are only a portion of the program's total authority. Total authority for any year includes not only authority to spend borrowed funds, but also authority to spend other funds such as repayments from persons and organizations who had received loans. GAO recommends that

The Director of OMB interpret the definition of budget authority as applied to revolving fund loan programs as the amount of gross obligations, or gross loan obligations, authorized to be made.

The Congress place specific limits on the gross loan obligations and require that such limits be treated as the relevant budget authority amounts.





COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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To the President of the Senate and
Speaker of the House of Representatives

This report describes how Federal agencies, in financing certain revolving fund credit programs, may legally borrow from Treasury and non-Treasury sources more funds than indicated by official budget document recordings of the budget authority (for borrowings) for those programs. We make recommendations to the Congress and the Director of the Office of Management and Budget that would revise budget procedures for such programs.

We undertook the review after preliminary work revealed that Federal agencies' borrowings from the Treasury since 1932 have greatly exceeded recorded borrowing authorizations in Treasury's published records. Over fiscal years 1932-79, recorded authorizations totaled about \$232 billion, while total actual borrowings came to about \$460 billion--almost twice the amount of recorded authorizations.

Copies of the report are being sent to the Director of the Office of Management and Budget, the case study Federal agencies that would be affected by the recommendations, the Director of the Congressional Budget Office, and the congressional Committees on the Budget and Committees on Appropriations.

A handwritten signature in cursive script, reading "Luther B. Austin".

Comptroller General
of the United States

D I G E S T

Program administrators use "budget authority" to borrow amounts from Treasury or non-Treasury sources to finance their revolving fund loan programs. In some cases, this authority--"borrowing authority"--represents authorized net borrowings (gross borrowings less repayments) rather than authorized gross borrowings. (See p. 3.)

BORROWINGS EXCEED RECORDED AUTHORITY

As a consequence of the netting procedure, a program's total (gross) borrowings in a fiscal year can easily exceed its recorded borrowing authority for the year. Furthermore, this gap between the authority recorded in the budget and total borrowings can increase in succeeding years as recordings of borrowing authority are used for several cycles of borrowings--rolled over. Over fiscal years 1932-79, Government-wide recorded authorizations for borrowings from Treasury totaled about \$232 billion, while total actual borrowings from Treasury came to about \$460 billion--almost twice the amount of recorded authorizations. (See p. 4.)

There were programs in 22 accounts spanning 12 Federal departments and independent agencies in fiscal year 1979 which had followed the netting procedure in their borrowings from both Treasury and non-Treasury sources. These programs had outstanding borrowings from Treasury (September 30, 1979) totaling about \$96 billion. (See p. 13.)

CONGRESSIONAL BUDGETARY CONTROL SUFFERS
UNDER THE NETTING PROCEDURE

GAO believes that the Congress' budgetary control, including annual controls on program and aggregate budget authority amounts,

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suffers when budget authority recordings for revolving fund loan programs express authorized net borrowings, for several reasons.

First, net-based recordings of borrowing authority do not disclose the full amount--which they should--of obligational authority made available through authorized borrowings. Each borrowing adds obligational authority, and repayments on borrowings during a year should not be used to obscure the obligational authority made available by one or more new borrowings in the same year. Congressional attempts to control obligational authority by acting on net-based borrowing authority will not completely control actual obligational authority levels, and result in budget totals that provide a distorted picture of the obligational authority provided through borrowing authority. (See p. 22.)

Second, use of net-based borrowing authority amounts lessens budgetary consistency, thereby complicating the budgetary process and making it more difficult for the Congress to set priorities and make comparisons among programs. GAO notes that budget authority recordings and totals for programs financed with appropriations represent gross, not net, funds. (See p. 24.)

Also, there are several programs in the budget in which borrowing authority recordings represent authorized gross borrowings, not net. Therefore, use of net-based borrowing authority recordings and figures interjects inconsistency into budget amounts. This inconsistency also applies to the amounts and totals in the Congressional Budget Office's budget "scorekeeping" reports. It is difficult for the Congress to set priorities among programs and achieve the intended results if programs' funding levels are computed under different rules. (See p. 27.)

Third, net-based borrowing authority often entails "backdoor spending." GAO believes that the Congress' budgetary control is weakened when agencies may conduct several

cycles of borrowings in the absence of new congressional authorizations. It is GAO's position that the public interest is best served when congressional control over Federal activities and funding levels, including borrowings, is exercised through periodic reviews and affirmative action in the appropriations process. (See p. 27.)

GROSS-BASED BORROWING AUTHORITY IMPROVEMENT MIGHT NOT GO FAR ENOUGH

Conversion to gross-based borrowing authority in revolving fund loan programs would result in budget authority recordings that express more fully the obligational authority made available through borrowings. However, such gross recordings, plus any other recordings under current procedures (appropriations, contract authority), still might not fully express total obligational authority made available. Total obligational authority in these revolving fund programs also includes (besides authority derived from borrowings, appropriations, etc.) the collections made available through the cycle of program operations and assorted financing mechanisms (sale of assets, etc.). Budget authority recordings in these cases should encompass the authority to obligate funds whatever their source, including collections from program operations. (See p. 30.)

RECOMMENDATIONS

The Director of OMB should revise the way the definition of budget authority is applied to revolving fund loan programs so that budget authority for these programs is the amount of gross obligations, or gross loan obligations, authorized to be made. (See p. 36.)

The Congress, in reviewing revolving fund loan programs, should place specific limits on the gross obligations, or gross loan obligations, authorized to be made, and require that such limits be treated as the relevant budget authority amounts. (See p. 36.)

AGENCY COMMENTS

OMB and Treasury disagree with GAO's position that budget authority for revolving fund loan programs should express the amount of gross obligations, or gross loan obligations, authorized to be made. Officials of OMB agree, however, that the Congress should place limits on obligations in revolving fund loan programs, and agree that conversion to gross-based borrowing authority (instead of net-based) for certain types of revolving fund programs would be an improvement. The agencies' comments including certain technical objections, are discussed in appendixes VI and VII. GAO also discussed technical aspects of the draft report with the case study agencies (see appendixes I, IV, and VIII).

GAO still concludes that its recommended changes are needed, and that the report's technical discussions are accurate.

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ABBREVIATIONS

BLIF	Business Loan Investment Fund
CBI	Certificate of Beneficial Interest
CBO	Certificate of Beneficial Ownership
Eximbank	Export-Import Bank of the United States
FNMA	Federal National Mortgage Association
GAO	General Accounting Office
GNMA	Government National Mortgage Association
HUD	Department of Housing and Urban Development
OMB	Office of Management and Budget
PC	Participation Certificate
REA	Rural Electrification Administration
RETRF	Rural Electrification and Telephone Revolving Fund
RHIF	Rural Housing Insurance Fund
SBA	Small Business Administration
USDA	United States Department of Agriculture

CHAPTER 1

INTRODUCTION

THE SIGNIFICANCE OF BUDGET AUTHORITY

With passage of the Congressional Budget Act of 1974 (Public Law 93-344, Title I-IX), the Congress undertook to improve its control over the Federal budget. The 1974 act and implementing actions established several new congressional budgetary processes to carry out this objective, including annual passage of the first and second concurrent resolutions on the budget setting targets or ceilings on outlays and budget authority. "Budget authority" is defined in law (31 U.S.C. 1302) as:

"* * * authority provided by law to enter into obligations which will result in immediate or future outlays involving Government funds * * *." 1/

The authority to enter into obligations now exists in three principal forms: appropriations, contract authority, and borrowing authority. 2/ Furthermore, as used by the Congress and the executive branch, budget authority generally is the new, or additional, obligational authority which is made available to a program in a given fiscal year. 3/

1/See "Terms Used in the Budgetary Process," U.S. General Accounting Office, PAD-77-9, July 1977, p. 6.

2/Ibid., pp. 3, 6, 10. Essentially, an "appropriation" (the most common form of budget authority) provides authority to obligate and expend government funds. "Contract authority" provides authority to obligate in excess of funds available for expenditure, with subsequent expenditure to come from an "appropriation to liquidate contract authority" or, in the case of revolving funds, from fund receipts. In "borrowing authority," there is authority to obligate and expend borrowed funds.

3/Statutory provisions permit some programs' budget accounts to carry forward (with or without fiscal year limits) balances of prior year budget authority, or use receipts from revolving operations. In such cases, budget authority is only one source of obligational authority in a fiscal year.

OUR REVIEW OF BORROWING AUTHORITY

This report concerns one type of new budget authority, i.e., borrowing authority. The President's budget, prepared in accordance with procedures established by the Office of Management and Budget (OMB), records borrowing authority amounts in the budget for programs authorized by law to borrow from Treasury or non-Treasury sources. These recordings express levels of authorized borrowings.

In some cases, the borrowing authority recorded in the budget express a total (gross) amount of funds that may be borrowed. In other cases, however, the recordings do not express such a total, owing to features of the authorizing legislation (discussed in chapter 2).

An example of borrowing authority which does not represent the total of funds which may be borrowed concerns the Export-Import Bank of the United States ("Eximbank"). In the budget over fiscal years 1946-79 there were borrowing authority recordings of about \$6 billion to express the Eximbank's authority for borrowings from Treasury, during which time the Eximbank's borrowings from Treasury actually totaled about \$31 billion, or about \$25 billion more than recorded borrowing authority. The difference represents essentially amounts that were repaid and subsequently reborrowed.

We felt that such procedures for recording borrowing authority, while legal and in accordance with budgetary conventions, raised serious budgetary policy issues warranting further study. This report summarizes our study and presents recommendations to OMB and the Congress for changing the procedures to produce more consistent and meaningful budgetary amounts.

As part of our study, we conducted case studies of borrowing authority recordings in the budget for programs in seven budget accounts. We selected accounts with significant levels of borrowings and repayments over a number of years. In three of the accounts, borrowing authority recordings have represented the total (gross) amount of borrowings which may be borrowed; while in the remaining four accounts, there have been recordings that meant something else (most often, authorized net borrowings). These case studies are listed in appendix I. Appendixes II, III, and IV contain some supplementary discussions and amounts pertaining to the case studies. OMB, Treasury, and Rural Electrification Administration (the only case study agency to respond in writing as well as orally) comments on the report along with our responses are presented in appendixes VI, VII, and VIII. The figures used in this report are unverified amounts provided by executive branch agencies.

CHAPTER 2

THE BUDGET TREATMENT OF BORROWING AUTHORITY

BORROWINGS PROVIDE SIZABLE BUDGETARY RESOURCES

U.S. Government departments and agencies borrow directly from both Treasury and non-Treasury sources to fund their programs and activities. Many of the programs using borrowed funds are Federal credit programs (direct loans and loan guarantees). Borrowings from both Treasury and non-Treasury sources involve significant sums of money. At the end of fiscal year 1979, there were outstanding borrowings from the Treasury totaling about \$106 billion, 1/ providing funding for programs in 30 budget accounts spanning 12 Federal departments and independent agencies. Borrowings for the year were about \$60 billion. 2/

Borrowing from non-Treasury sources was also a significant source of funds for Federal departments and agencies. Outstanding borrowings from non-Treasury sources, including the Federal Financing Bank, 3/ totaled approximately \$21 billion at the end of fiscal year 1979. Borrowings from non-Treasury sources during the year were about \$2 billion.

TWO KINDS OF BORROWING AUTHORITY RECORDINGS: NET AND GROSS

Instructions issued by OMB set policy on how "borrowing authority" 4/ amounts are to be recorded in the budget for accounts whose programs are funded (at least in part) with borrowings. These recordings express levels of borrowings authorized by law. In some cases, e.g., where a statute

1/Excludes about \$6 billion in Treasury advances as subscriptions to capital stock and credit to the United Kingdom.

2/Borrowings from Treasury are borrowings of Treasury's public debt receipts, which are funds realized from the Treasury Department sale to investors of public debt securities.

3/Although it is administered by the Treasury Department and receives its funds by borrowing from Treasury, the Federal Financing Bank is treated as a non-Treasury, off-budget governmental enterprise.

4/Also termed in the budget as "authority to spend debt receipts."

authorizing borrowings does not contain a dollar limit on borrowings (an "indefinite" authorization)--the amount to be recorded is determined by budgetary conventions. In these instances, the amount recorded as borrowing authority would represent essentially the increase in the amount of authorized outstanding borrowings from the beginning to the end of the year. 1/

In these and some other cases (see p. 5), normal budgetary practice is to make the borrowing authority recordings essentially represent levels of authorized net borrowings, i.e., borrowings less repayments. In other cases, however, the amounts recorded in the budget represent authorized gross borrowings (see p. 18).

"NET" BORROWING AUTHORITY
UNDERSTATES AUTHORIZED BORROWINGS

The policy of having borrowing authority recordings for several programs express levels of authorized net borrowings, rather than gross borrowings, results in budget recordings that do not fully disclose the total amount of borrowings that may occur. Total borrowings for these programs often exceed recorded borrowing authority.

Borrowings from Treasury exceed
recorded authority by \$228 billion

Because of the netting procedure, total agency borrowings from Treasury in recent years have exceeded recorded borrowing authorizations by a significant amount. Treasury Department records show that during fiscal years 1932-79,

1/Until recently, the budget convention for dealing with this situation was actually somewhat more complex. In a case of indefinite borrowing authority where the amount of outstanding borrowings moves up and down over time (e.g., rises in one year and declines in the next, etc.), the convention would have required budget authority to be recorded only to the extent that the sum of year end outstanding borrowings plus uncovered obligations exceeded the comparable sum in any previous year. This additional complexity was eliminated in revised instructions by OMB in 1977. For a more complete discussion of this matter, see appendix II.

borrowing authorizations 1/ totaled about \$232 billion 2/ while borrowings came to about \$460 billion--twice the amount of recorded authorizations.

Not only have borrowings from Treasury exceeded recorded borrowing authorizations, but also the trend shows an increasing gap between recorded amounts authorized and actual borrowings. Figure 1 shows this trend. In fiscal year 1957, cumulative borrowings had exceeded cumulative recorded authorizations (since 1932) by about \$1 billion; while by the end of fiscal year 1979, borrowings had exceeded recorded authorizations by about \$228 billion.

Partial information indicates that borrowings from non-Treasury sources may also have exceeded recorded borrowing authorizations. 3/

Thus, borrowing authority recorded under the netting procedure significantly understates the extent of actual authorized borrowings. We do not suggest that these amounts were borrowed and spent illegally. Rather, we believe that the practice lessens the meaning of the "borrowing authority" amounts in the budget and could impair effective congressional control over the budget (discussed in greater detail in chapter 3).

1/Treasury records sometimes use the term "borrowing authorization" rather than the OMB term, "borrowing authority." Our partial check of the amounts showed that those listed by Treasury as borrowing authorization amounts largely corresponded to borrowing authority amounts in the budget. In the sample years checked, the borrowing authority totals never exceeded the borrowing authorization totals.

2/Represents total cumulative authorizations unadjusted for periodic decreases (approximately \$37 billion over fiscal years 1932-79).

3/Information is not readily available on cumulative authorizations and borrowings concerning non-Treasury sources for the fiscal years 1932-79 period. However, partial information shows the existence of a netting procedure used for several accounts (see p. 13), and the distinct possibility that borrowings have exceeded authorizations. In the fiscal years 1973-79 period alone, Treasury Department records show agency repayments (on borrowings from non-Treasury sources) under the netting procedure of about \$30 billion, identified as repayments that "restored" old borrowing authorizations for additional borrowings. The importance of "restoring" repayments under the netting procedure is discussed on p. 9.

Figure 1

AGENCY BORROWINGS FROM THE TREASURY — AUTHORIZATIONS AND GROSS BORROWINGS

ALL AMOUNTS CUMULATIVE SINCE FISCAL YEAR 1932



SOURCE Derived from the Statistical Appendix to the Annual Report of the Secretary of the Treasury on the State of the Finances, Fiscal Year 1978, and related updates material

* Represents total cumulative authorizations unadjusted for periodic decreases (approximately \$37 billion over fiscal years 1932-1979).

** Includes some borrowings that were used for simultaneous repayments in the same amounts on notes due (debt was "rolled over").

The netting procedure is used
for two kinds of programs

The netting procedure is used in calculating and recording borrowing authority for two kinds of programs:

- programs whose statutory authorizations for borrowings contain no dollar limits on borrowings (indefinite authorizations);
- programs whose statutory authorizations contain dollar limits on "outstanding" borrowings.

An example of an indefinite authorization is seen in the following statutory provision authorizing the Secretary of the Department of Agriculture to borrow Treasury funds for the programs in the Rural Housing Insurance Fund (42 U.S.C. 1487(h)):

"The Secretary is authorized to issue notes to the Secretary of the Treasury to obtain funds necessary for discharging obligations under this section and for authorized expenditures out of the fund, * * *. Such notes shall be in such form and denominations and have such maturities and be subject to such terms and conditions as may be prescribed by the Secretary with the approval of the Secretary of the Treasury. * * * The Secretary of the Treasury is authorized and directed to purchase any notes of the Secretary issued hereunder."

An example of an authorization with a dollar limit on "outstanding" borrowings is found in legislation authorizing the Eximbank to borrow from Treasury (12 U.S.C. 635d):

"The Export-Import Bank of the United States is authorized to issue from time to time for purchases by the Secretary of the Treasury its notes, debentures, bonds, or other obligations; but the aggregate amounts of such obligations outstanding at any one time shall not exceed \$6 billion."

The basic netting procedure for these two kinds of authorizations is illustrated in table 1. Two sets of figures are shown for the two kinds of authorizations. For ease of illustration, the figures in the table pertain to a hypothetical first year of borrowing activity (no carryover balances involved).

It is seen that in each illustrative example, the amount of recorded borrowing authority represents a level of authorized net borrowings for the year--either, essentially, actual net borrowings (program #1), or a statutory dollar limit on outstanding borrowings (program #2). 1/ In both cases total borrowings for the year exceeded recorded borrowing authority.

Table 1

Illustrative Examples of Net Basis of Borrowing Authority--First Year of Borrowing Activity

	<u>Program #1-- no statutory dollar limit</u>	<u>Program #2-- \$150 million statutory limit on outstanding borrowings</u>
	----- (000 omitted) -----	
Statutory limit on out- standing borrowings from Treasury	N/A	\$ 150,000
Gross borrowings from Treasury	\$ 200,000	200,000
Less gross repayments to Treasury	<u>-170,000</u>	<u>-170,000</u>
Net borrowings from Treasury (borrowings outstanding)	30,000	30,000
Plus uncovered obligations end of year <u>a/</u>	<u>5,000</u>	<u>5,000</u>
Borrowing authority used	<u>35,000</u>	<u>35,000</u>
BORROWING AUTHORITY RECORDED IN THE BUDGET	\$ <u>35,000</u>	\$ <u>35,000</u>

a/ Unpaid obligations at year's end in excess of cash balances available (or assigned) for paying those obligations. Borrowing authority is needed to cover these unpaid obligations.

1/ The netting procedure applied to the programs in HUD's Special Assistance Functions Fund has been anomalous, combining features from both programs #1 and #2 in table 1. See appendix III.

Rollover has increased the gap between authority and borrowings

Not only may total borrowings exceed recorded borrowing authority in a given year under the basic netting procedure, but this gap can increase in succeeding years. "Rollover" (discussed below) is an important factor.

Rollover in programs with statutory limits on outstanding borrowings

In programs with statutory limits on outstanding borrowings, the netting procedure entails counting agency repayments of their borrowings as repayments which rollover, or restore, previously recorded borrowing authority, making the old authority available for another cycle of borrowings. The agency may use this rolled over authority instead of recording new borrowing authority to make additional borrowings. 1/

Changing rollover in programs with indefinite authorizations

A similar rollover procedure has been followed in programs with indefinite authorizations. However, OMB has recently adopted a new policy (only partly implemented--see p. 11) designed to eliminate rollover in such programs while still retaining the basic netting procedure. OMB officials state that the new policy was first adopted for use in developing the fiscal year 1979 budget, instructing agencies to match their repayments on prior year borrowings with permanent lapses ("redemption of debt") of previously recorded borrowing authority. 2/

1/For programs with statutory limits on "outstanding" borrowings, additional borrowing authority recordings are made when the legislation is amended increasing the limits. See p. 49, appendix II, for a case study example.

2/The applicable OMB Circular A-11 provision (section 32.4, June 29, 1977) provided for line #31.00 entries in budget schedules to be captioned "Redemption of debt," defined as "Amount of repayments for redemption of debt (e.g., participation certificates) where borrowing authority does not revolve. Include repayments of debt issued under permanent indefinite borrowing authority." The following year's Circular A-11 (May 25, 1978) added "* * * and withdrawals of balances of previously obligated permanent indefinite authority to borrow when other budgetary resources are substituted" to the definition of redemption amounts. The definition was not changed in the 1979 Circular A-11.

Because the new procedure, when implemented, will prevent the buildup of unused authority (as repayments are made) available to cover new borrowings, more frequent recordings of borrowing authority will be required. 1/ While this can slow any growth of a gap between borrowing authority recordings and total borrowings in programs with indefinite authorizations, it will not eliminate that growth, because the basic netting procedure for recording borrowing authority will remain.

OMB officials state that the new policy was adopted as a result of their recent analysis of the budget treatment of revolving funds--an analysis prompted, they state, by a GAO report on revolving fund budget matters. 2/ They also state that the main reason they adopted the nonrollover policy was their desire to reduce large amounts of unobligated balances in the budget accounts. 3/

1/Concerning programs with indefinite authorizations, the netting, rollover procedure that was in effect through the fiscal year 1978 budget, and still in effect in some cases (see discussion on p. 11), entailed additional recordings of borrowing authority when the year-end sum of (1) cumulative net borrowings (i.e., the year-end balance of outstanding borrowings) plus (2) unpaid obligations not covered by cash balances exceeded the total of previously recorded borrowing authority. According to OMB officials, the new policy designed to curtail rollover requires recordings in a given year to match the year's obligations for which other budgetary resources (collections, etc.) are not available or applied. See p. 40, appendix II, for an illustration of rollover and further discussion. An exception to the basic netting procedure for recording borrowing authority in programs with indefinite authorizations was seen, until changes in the budget for 1981, in programs in HUD's Special Assistance Functions Fund. See appendix III.

2/See "Revolving Funds: Full Disclosure Needed for Better Congressional Control," U.S. General Accounting Office, PAD-77-25, August 30, 1979.

3/Following Federal Government obligations and outlays "short-falls" in the latter part of the 1970s and the buildup in unobligated balances of budget authority, several congressional members expressed concern over the magnitude of unobligated balances. This led to GAO studies of the subject. See "Analysis of Department of Defense Unobligated Budget Authority," U.S. General Accounting Office, PAD-78-34, Jan. 13, 1978, and "An Overview of Unobligated Balance in Civil Agencies," U.S. General Accounting Office, PAD-78-48, April 1978.

The new OMB policy does not apply to programs operating under a statutory dollar limit on outstanding borrowings. 1/ In their comments on this report, however, OMB officials stated their interest in possibly applying non-netting and nonrollover procedures to such programs (see p. 91).

New OMB nonrollover policy
not fully implemented

We have not been able to determine the extent to which the new OMB nonrollover policy has been implemented throughout the Government. Authority for programs has permanently lapsed in one case study account, the Department of Agriculture's Rural Electrification and Telephone Revolving Fund, 2/ but the policy had not been implemented by the time of the 1980 budget for programs in the three other case study accounts subject to the new policy (see following paragraphs for corrections made in the 1981 budget):

--the Eximbank (borrowings from non-Treasury sources).

--the Department of Housing and Urban Development's Special Assistance Functions Fund (nonemergency programs).

--the Department of Agriculture's Rural Housing Insurance Fund (borrowings from non-Treasury sources).

In these three cases, there were repayments, or related activity, 3/ that should have (according to OMB policy) resulted in permanent lapses of borrowing authority in the budgets for fiscal year 1979 and 1980, yet no permanent lapses

1/OMB officials state that they did not apply the new lapsing procedure to these accounts because their study of the legislative and legal backgrounds of the accounts led them to conclude that in such accounts, borrowing authority amounts become part of each account's corpus. This is not the case, they further state, in accounts with no dollar limits on borrowings, wherein borrowings are in the nature of temporary, emergency sources of funding.

2/About \$1 million in fiscal year 1977, \$224 thousand in fiscal year 1978 and \$135 thousand in fiscal year 1979. See appendix II, for a discussion of this fund.

3/Recaptured mortgage purchase authority in the case of the Special Assistance Functions Fund. See appendix III for more details.

related to these repayments were made. In the Eximbank case, for example, these repayments totaled about \$4.4 billion.

Furthermore, we identified one relevant noncase study program in which rollover still occurred. 1/ We also noted that the OMB Examiners' Handbook has not been revised to reflect the new nonrollover policy. 2/

Prior to issuance of the President's budget for fiscal year 1981 (in January 1980), we pointed out to OMB officials the continued rollover in some of the case study accounts and the one noncase study account. In meetings with us, officials of OMB acknowledged that the new policy had not been fully implemented, and that the nonimplementation accounts were "in transition." They further stated that they planned to correct any cases of nonimplementation. OMB officials made similar statements in their written comments on the draft of this report (see p. 97).

Our review of the subsequently issued budget for fiscal year 1981 shows that there is still a need for corrective steps in two of the four noncompliance accounts. This is discussed further in appendix II (see p. 40) and appendix VI (see p. 97).

Netting in the case study accounts

The entries in table 2 pertaining to programs in four case study netting accounts--all are "public enterprise revolving funds" 3/--illustrate key effects of the netting procedure. In three of the case study accounts listed in table 2, gross borrowings (cumulative for all years) had exceeded recorded borrowing authority (cumulative for all years) by September 30, 1979 (column "4"). The excess of gross borrowings over recorded authority ranged from about \$2 billion, for the programs in the Department of Agriculture's (USDA) Rural Housing Insurance Fund, to about \$26 billion, for Eximbank's Treasury borrowings.

1/The Department of Defense's "Homeowners Assistance Fund, Defense" (budget account 97-4090).

2/See appendix II, p. 39, and appendix III, p. 59.

3/These are accounts authorized by the Congress to be credited with receipts, primarily from the public, that are generated by, and earmarked to finance, a continuing cycle of business-type operations.

The Rural Electrification and Telephone Revolving Fund account is relatively new--begun in fiscal year 1973, and it will require a longer period of borrowing activity before total borrowings exceed recorded borrowing authority. 1/ It is just a matter of time under the current procedure and trends before this happens.

It is also seen that there were repayments that rolled over borrowing authority in all four netting accounts (column "3" amounts). The most notable case was rollover of Eximbank's authority to borrow from Treasury, where restoring repayments of about \$31 billion permitted several cycles of borrowings under the recorded borrowing authority of nearly \$6 billion. 2/

The rollover of Eximbank's authority made it possible for the Bank to legally borrow extensively long after borrowing authority was last recorded for the Bank, which was for fiscal year 1958. In the fiscal year 1959-79 period, the Bank borrowed over \$20 billion.

Of the case study netting accounts, only Eximbank borrowings from Treasury, subject to a statutory limit on outstanding borrowings, are exempt from OMB's new policy aimed at restricting rollover. The other borrowings occur under indefinite authority. There, although rollover is supposed to cease, netting will continue, permitting gross borrowings to exceed recorded borrowing authority.

Netting occurs in several programs

Several programs have received funds borrowed from Treasury and non-Treasury sources under the netting procedure. As seen in table 3, programs in 19 active accounts in fiscal year 1979, according to Treasury records, followed this

1/The fund is "off-budget," and its recordings, while displayed in the "off-budget" section of OMB budget material, are not included in the regular budget totals.

2/The Eximbank's borrowing authority for Treasury borrowings was increased incrementally over fiscal years 1946-58, with periodic statutory increases in the amount of borrowings which could be outstanding at any time. Cumulative borrowing authority did not reach \$5.7 billion until 1958. See appendix II.

Table 2

Summary Amounts from Four Case Studies of Netting
Cumulative Amounts, as of September 30, 1979,
Since Beginning of Each Account

(000 omitted)

	<u>Recorded borrowing authority</u>	<u>Gross borrowings</u>	<u>Gross repayments that rolled over authority</u>	<u>Gross borrowings in excess of recorded borrowing authority</u>
Export-Import Bank of the United States:				
Borrowings from Treasury	35.7	\$31.2	\$31.2	\$25.5
Borrowings from non- Treasury sources	3.3 <u>a/</u>	23.0	15.9	14.7
HUD's Special Assistance Functions Fund--non- emergency <u>b/</u> (borrow- ings from Treasury)	8.4 <u>c/</u>	14.4	10.2	6.0
USDA's Rural Electrification and Telephone Revolving Fund (borrowings from Treasury)	3.7 <u>d/</u>	2.7	0.5 <u>e/</u>	--
USDA's Rural Housing Insurance Fund (borrowings from Treasury)	3.4 <u>a/</u>	5.2 <u>f/</u>	4.2 <u>f/</u>	1.8
	(1)	(2)	(3)	(4)

a/No unused authority, fiscal years 1977-79, lapsed in accordance with OMB's new permanent lapsing procedure ("redemption of debt").

b/During the period covered by the case study, the account also financed an emergency program subsequently (fiscal year 1979) financed through a separate account.

c/Amount is full amount not adjusted downward in this table for permanent lapsing ("redemption of debt") by the end of fiscal year 1979 of about \$2.5 billion.

d/Amount is full amount not adjusted downward in this table for permanent lapsings ("redemption of debt") of unused authority for fiscal years 1977-79 totaling about \$1.5 million.

e/Cumulative total of repayments through the "transition quarter" ("T.Q.") ending September 30, 1976. Excludes about \$1 billion in repayments since then under non-rollover procedures.

f/Includes \$1.7 billion in borrowings and repayments made simultaneously on the first day of the fiscal year on prior year notes due (debt was "rolled forward").

procedure in their borrowings from Treasury. 1/ Five of these accounts (identified by asterisks in table 3), plus an additional three accounts, 2/ have been using the netting procedure in their borrowings from non-Treasury sources.

The borrowings outstanding in the 19 accounts represent possible future rollover, except for the outstanding amounts in indefinitely authorized accounts where OMB's new nonroll-over policy is implemented. The accounts have about \$96 billion outstanding in borrowings from Treasury of which about \$64 billion is owed to Treasury by the offbudget Federal Financing Bank.

OMB's explanation of netting

Officials of OMB state that it is probably more meaningful to calculate borrowing authority on a basis that expresses the net impact on a lending source (e.g., Treasury) rather than the gross usage of the lending source. 3/

Also, OMB officials state that the netting procedure is consistent with the statutory provisions that authorize the relevant borrowings. In the case of programs with no dollar limits on borrowings (program #1 in table 1, page 8), there is no statutory provision requiring a different method of calculating borrowing authority. In programs with dollar limits on outstanding borrowings (program #2), the Congress has chosen to control a net level of activity, which in turn, suggests that borrowing authority should also be calculated on a net basis. We shall address these OMB positions in the next chapter.

1/There may be other accounts not listed in table 3 which could be following the netting procedure, but which were not identified in our study because they had made no identifying repayments by the end of fiscal year 1979. See the "Note" footnote in table 3 for statement of the criterion used in identifying the accounts. See also footnote "d" in table 3 concerning an account whose repayments are netted in Treasury's records, but not in OMB's records.

2/DOD's Family Housing Mortgages and Home Owners Assistance Mortgages accounts, and the Postal Service.

3/We have previously stated our disagreement with reporting outlays of revolving funds on a net basis. See "Revolving Funds: Full Disclosure Needed for Better Congressional Control," U.S. General Accounting Office, PAD-77-25, August 30, 1977.

Table 3

Accounts Using the Netting Procedure
in Their Borrowings from the Treasury, Fiscal Year 1979
 Fiscal Year 1979 Accounts--Amounts as of September 30, 1979
 (000 omitted)

AGENCY Account DEPARTMENT OF AGRICULTURE Commodity Credit Corporation Agricultural Credit Insurance Fund Rural Development Insurance Fund Rural Housing Insurance Fund [CASE STUDY] Rural Electrification and Tele- phone Revolving Fund [CASE STUDY] b/ DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT College Housing Loans Federal Housing Administration Fund* Special Assistance Functions Fund [CASE STUDY] Emergency Mortgage Purchase Assistance [CASE STUDY] c/ Management and Liquidating Functions Urban Renewal Fund DEPARTMENT OF TRANSPORTATION Regional Rail Reorganization	\$13,926,516 1,850,000 515,000 1,005,718 1,301,506 c/ 2,687,325 3,968,821 4,221,417 1,351,400 14,000 300,000 2,704	Borrowings outstanding fiscal year <u>1979 end a/</u>
--	---	--

DEPARTMENT OF LABOR

Pension Benefit Guaranty Corporation b/

DEPARTMENT OF THE TREASURY

Federal Financing Bank b/*

64,211,034

INDEPENDENT AGENCIES

National Flood Insurance
Export-Import Bank [CASE
STUDY]*

445,556

50,000

Federal Home Loan Bank Board
Tennessee Valley Authority*
Pennsylvania Avenue Development
Corporation

--
150,000

33,938

TOTAL

\$96,034,935

Note: The accounts are fiscal year 1979 accounts whose repayments (over fiscal years 1967-1979) on borrowings had been treated in Treasury Department records as repayments which "restore" borrowing authorizations. See also footnote 1/ on page 17.

*Also has had repayments (over fiscal years 1967-79) on borrowings from non-Treasury sources treated in Treasury Department records as repayments which "restore" borrowing authorizations.

a/Department of Treasury figures.

b/Off budget.

c/Although the repayments have been treated in Treasury Department records as "restoring" repayments, the Office of Management and Budget does not calculate the accounts borrowing authority requirements on a net, rollover basis. See p. 64 in appendix III of this report.

THE "GROSS" BASIS--BORROWINGS ARE
MATCHED BY BORROWING AUTHORITY

Some programs' borrowing authority amounts express authorized gross borrowings. In these cases, unlike the programs following the netting procedure, total borrowings do not exceed recorded borrowing authority.

It is general budgetary policy to record borrowing authority as the authorized gross borrowings for accounts operating under legislation that explicitly stipulates a dollar limit on cumulative borrowings. Such a statutory limit applied to programs in four of the five case study accounts involving the gross basis (identified in table 4). In these four cases, the limit was expressed as a statutory authorization for "aggregate" borrowings of a certain amount. An example of such an authorization is seen in the following statutory language pertaining to the programs in the Department of Agriculture's Rural Electrification Loans account (17 U.S.C. 903): 1/

"* * * the Secretary of the Treasury is hereby authorized and directed to make loans to the Administrator [of REA], * * * in such amounts in the aggregate for each fiscal year * * * as the Congress may from time to time determine to be necessary * * *."
[Emphasis added]

The specific amounts authorized appeared in annual Department of Agriculture--Related Agencies Appropriation Acts.

The fifth case study account with gross-based borrowing authority, the Department of Housing and Urban Development's Special Assistance Functions Fund, emergency program part (also see table 4), did not operate under a specific statutory limit on cumulative borrowings, but was managed as if it did because of an OMB policy decision and, later, certain other statutory restrictions. This is discussed further in appendix III (see p. 65).

The Office of Management and Budget's policy for calculating borrowing authority in such cases, i.e., where there is a statutory dollar limit on cumulative borrowings--is to record borrowing authority amounts which match the statutory dollar limits. For example, when the Small Business Administration's Business Loan and Investment Fund at one time

1/The account last appeared as a budget document account in the budget for fiscal year 1979.

Table 4

Summary Amounts from Five Case Studies of Gross-Based Borrowing Authority

Cumulative Amounts, as of September 30, 1979,
Since Beginning of each Account

(In Billions)	Recorded borrowing authority	Gross borrowings	Statutory limit on "aggregate" borrowings
HUD's Special Assistance Functions (SAF) Fund--emergency a/ borrowings from Treasury)	\$12.8	\$4.9	No b/
HUD's SAF--participation sales	0.6	0.6	Yes
USDA's Rural Electrification Loans (borrowings from Treasury)	10.6	9.3	Yes
Saint Lawrence Seaway Development Corporation (borrowings from Treasury)	0.1	0.1	Yes
SBA's Business Loan and Investment Fund (borrowings from non- Treasury)	0.8	0.8	Yes
USDA's Rural Housing Insurance Fund (borrowings from non-Treasury)	0.3	0.3	Yes
	(1)	(2)	(3)

a/The emergency program was placed in a different account effective fiscal year 1979.

b/The OMB policy and statutory restrictions that made borrowing authority represent in effect, authorized gross borrowings are discussed on p. 65.

was authorized by an appropriation act to engage in participation sales borrowings " * * * in an aggregate principal amount of not to exceed \$150,000,000 * * *," the fund was credited with borrowing authority of \$150 million (see appendix IV).

Under such a procedure, recorded borrowing authority will equal or exceed total borrowings. This may be seen in the entries in table 4 (p. 19). Also, four of the five accounts in table 4 are public enterprise revolving funds; the single exception is the Department of Agriculture's Rural Electrification Loans account--a "general fund" account. 1/

OMB explanation of gross-based borrowing authority

Officials of OMB state that the principal factor which determines whether a program's borrowing authority is calculated on a net or gross basis is the presence or absence in the controlling legislation (authorizing and/or appropriation acts) of a stated dollar limit on cumulative borrowings. If a cumulative limit exists, usually stated as a limit on "aggregate" borrowings, OMB must use the gross-based method to express the limit.

In our opinion, the procedure of calculating borrowing authority to express authorized net borrowings in some cases, and authorized gross borrowings in other cases, interjects an element of inconsistency into the budget's totals and impairs congressional budgetary review and control. It is noted, however, that the procedure in a given case probably reflects congressional intent. This procedure is discussed in chapter 3.

1/Essentially, a general fund account is financed by congressional appropriations of Treasury receipts not previously earmarked for a specific purpose.

CHAPTER 3

IMPLICATIONS FOR CONGRESSIONAL CONTROL

We have stated in prior opinions and reports that because of the importance given to the budget authority concept (including borrowing authority) by the 1974 Congressional Budget Act, and because of the concept's prominent use in the President's budget, it is important to maintain and, as needed, improve the usefulness of budget authority as an expression of the obligational authority made available by law to a Federal agency. The Congress' annual actions in setting budget priorities, establishing funding levels for individual programs, and controlling overall budget totals act upon budget authority (and outlay) amounts. Therefore, incorrect or misleading computations of budget authority can only lessen the effectiveness of congressional budgetary actions. 1/

We accordingly have made recommendations from time to time for changes in existing procedures for calculating budget authority--in cases where we determined that the procedures being followed did not fully express the obligational authority made available under law, or otherwise lessened the meaningfulness of the budget authority concept. We have consistently maintained that budget authority is a broad concept, designed to express fully the maximum potential obligations that may be incurred under the obligational authority made available. 2/

We have also stated on several occasions that congressional control over budget authority amounts is best assured when the Congress provides budget authority through periodic

1/The Rural Electrification and Telephone Revolving Fund covered herein--a netting account--has been placed "off-budget" by statutory action, and its budget authority amounts are not included in the regular budget totals.

2/See, for example, "Budget Authority for Foreign Military Sales is Substantially Understated," U.S. General Accounting Office, PAD-78-72, July 27, 1978, especially p. 5. See also the following opinions: B-171630, August 14, 1975, concerning budget authority for HUD's contracts with local housing bodies to provide annual contributions for assisted housing; B-159687, March 16, 1976, concerning the budget implications of proposed energy legislation; and B-114828, January 31, 1977, pertaining to budget authority for HUD's discretionary emergency mortgage purchase assistance program.

appropriation actions, rather than through the "backdoor" of legislation other than appropriations. 1/

Related to these matters, we addressed in our study the following principal questions:

- Does the netting procedure for calculating borrowing authority hamper congressional budgetary control by resulting in amounts that do not fully express the obligational authority made available through borrowing authority?
- Does the use of two methods for calculating borrowing authority (the netting and gross methods) impair congressional control over budget amounts by interjecting an element of inconsistency into the Federal budget?
- Are steps needed to subject borrowing authority actions to the appropriations process?

These questions are discussed in the following pages.

NETTING DOES NOT FULLY DISCLOSE NEW
OBLIGATIONAL AUTHORITY BASED ON BORROWING

The netting procedure results in borrowing authority entries in the budget which express, essentially, a net amount of new funding made available to an account (gross borrowings less gross repayments), rather than the gross amount. Such net expressions of new funding do not fully disclose the amount of obligational authority made available through borrowing authority, thereby hampering congressional control over budget amounts.

Netting lessens
congressional budgetary control

A principal budgetary and appropriation aim of the Congress is to control the amount of obligational authority made available each year to executive agencies. It does this

1/The need for periodic appropriations actions on budget authority is discussed in the following GAO reports and opinions: B-107449, Oct. 10, 1973; B-178726, Sept. 16, 1976; "Budget Authority for Foreign Military Sales is Substantially Understated," PAD-78-72, July 27, 1978, p. 10; and "No-Year Appropriations in the Department of Agriculture," PAD-78-74, Sept. 19, 1978, p. 11.

mainly by setting overall and "functional" 1/ new funding amounts in the First and Second Concurrent Resolutions on the Budget, and in appropriations actions on individual programs.

We believe that under current procedures the Congress can most effectively carry out its responsibilities if it has full and accurate information on the obligational authority it provides through authorizations for borrowings. Without such information, the Congress might consider budgetary requests and enact authorizations that imperfectly express the full amount of approved obligational authority. This could happen in cases where the borrowing authority amounts being considered and acted upon are based on authorized net borrowings.

Each borrowing represents new obligational authority

In our opinion, each borrowing during a year represents new authority for entering into obligations, regardless of whatever repayments are made that year. Repayments in a given year, whether on current or past year borrowings, should not be used to obscure the obligational authority made available by the borrowings. Each borrowing is a discrete transaction which directly or indirectly adds obligational authority and potential for expanded activities, 2/ and a repayment in the same year does not lessen the new authority represented by the borrowing. The repayment does not cancel obligations which were made possible by the new borrowing.

Let us assume a budget scenario starting with a borrowing of \$250 million, to support \$250 million in loan obligations and disbursements. This is followed in the same year by a \$250 million repayment of the borrowing, using funds realized through a "sale of assets."

The \$250 million in borrowings supported \$250 million in obligations and related disbursements. Consequently, we believe that the correct amount of borrowing authority for

1/Totals are set for "functions" which cut across agency lines, e.g., General Science, Space, and Technology; Natural Resources and Environment; Community and Regional Development; Interest; etc.

2/Subject to any statutory limitation on program obligations.

such borrowing activity, expressing fully the authority (based on borrowings) for entering obligations, would be \$250 million. However, under the netting procedure, there would be no recording of borrowing authority for this borrowing activity. 1/ In such a case as this, the netting procedure obscures the amount of obligational authority made available by borrowings.

Gross borrowings are closer to cumulative obligations

Table 5 shows that gross borrowings have a closer relationship to cumulative obligations than do net borrowings in the case study accounts using the netting procedure-- especially in the two accounts that rely the most on borrowings (the first two listed). 2/

In summary, borrowing authority calculated to reflect gross borrowings, rather than net borrowings, would provide fuller disclosure of the obligational authority made available. This more complete disclosure would enhance congressional control over budget amounts. Congressional controls on gross-based borrowing authority would be more controlling on the level of obligational authority made available through borrowing authority than controls on net-based borrowing authority.

NETTING LESSENS BUDGETARY CONSISTENCY

The 1967 President's Commission on Budget Concepts stated that budget concepts and definitions "* * * should have basic consistency * * *." 3/ We concur with this

1/In the hypothetical netting example, Certificates of Beneficial Ownership (CBO) sale receipts are in effect substituted, after the fact, for the borrowing authority as the obligational authority for the \$250 million in loan obligations.

2/Obligations can exceed gross borrowings in these accounts because of the availability of other funds to cover obligations ("sale of assets," etc.) and/or lags in the timing between obligations and borrowings.

3/Report of the President's Commission on Budget Concepts, 1967, p. 10.

Table 5

Gross and Net Borrowings, and Direct Obligations, as of September 30, 1979

	Gross borrowings (cumulative <u>all years</u>)	Net borrowings (cumulative <u>all years</u>)	Direct obligations (cumulative <u>all years</u>)
------(in billions)-----			
Export-Import Bank (Treasury and non- Treasury) <u>a/</u>	\$49.8	\$5.2	\$49.4
HUD's Special Assist- ance--nonemergency (Treasury and non- Treasury)	15.0	4.2	16.0 <u>b/</u>
USDA's Rural Electri- fication and Tele- phone Revolving Fund (Treasury)	2.7	1.3	7.0
USDA's Rural Housing Insurance Fund (Treasury and non- Treasury)	5.5	1.1	41.5

a/Amounts are only fiscal year 1960-on.

b/Purchases.

principle and note that the netting procedure lessens consistency in two ways, thereby complicating the budgetary process and impairing congressional budget control:

--netting deviates from the procedure (gross) used for programs funded through appropriations; and

--netting is used for only some--not all--programs funded with borrowings.

Inconsistency lessens congressional budget control

Divergent budgetary treatment among programs lessens the meaning of the budget authority concept, lessens comparability among the Congressional Budget Office's "scorekeeping" amounts and totals, 1/ and complicates the Congress' efforts to exercise budgetary control. Setting priorities among programs and achieving the intended results is difficult if the programs' funding levels are computed under different rules. For the best congressional control, "budget authority," whether in the form of appropriations, borrowing authority, or contract authority, should have basic consistency in meaning and application.

Appropriations accounts use gross-based budget authority

A good comparison may be made with certain programs funded by appropriations wherein, in a given fiscal year, there can be a two-way flow of funds--into and out of the programs' accounts--similar to the two-way flow of funds represented by borrowings and repayments. In programs funded by "multiple-year" 2/ appropriations, there normally is a new appropriation for each year and also the availability, in that year, of unused appropriation amounts from prior years. At the end of the year some old unused appropriation amounts may lapse. In such a case, where new funding is created by an appropriation, and, in the same year, old funding (from an earlier appropriation) is allowed to lapse, the OMB practice is to record the program's new funding (appropriations) on a gross basis, i.e., the full amount of the new appropriation, unadjusted by any lapses. This procedure fully reflects the obligational authority made available.

The OMB practice of adjusting downward the appropriation in such a program by the amount of any "recission" 3/ is not

1/The Congressional Budget Office, under authority of the 1974 Congressional Budget Act, Title II (2 U.S.C. 601), periodically reports to the Congress on the latest budget amounts reflecting congressional and executive actions. These are "scorekeeping" reports.

2/The appropriation remains available for a specified period of time in excess of 1 fiscal year.

3/A recission is legislation action which cancels budget authority previously provided by the Congress prior to the time when the authority would otherwise lapse.

a departure from the grossing approach. A recession-adjusted appropriation amount still fully reflects the amount of additional obligations which may be incurred as a result of new funds made available.

In short, the netting procedure used for some programs with borrowings deviates from the gross-based procedure used for appropriation-funded programs. We believe that this divergent treatment conflicts with good budgetary procedure.

Some borrowing accounts use gross-based borrowing authority

We have already noted that there are several instances of borrowing activity involving gross-based borrowing authority. It is confusing that "borrowing authority" entries vary so widely in meaning across programs, with some representing gross levels of borrowing and others signifying net levels.

The Export-Import Bank, operating under the netting procedure, last recorded borrowing authority for Treasury borrowings in fiscal year 1958, which brought cumulative recordings to almost \$6 billion. Although no borrowing authority has been recorded since 1958, the Bank has borrowed over \$20 billion (gross) since then (as of September 30, 1979). However, the budget treatment of programs in the Department of Agriculture's Rural Electrification Loans account was handled very differently. The borrowing authority and total borrowings never exceeded total authority. Such divergent budgetary treatment among programs engaged in borrowings lessens the meaning of the borrowing authority concept, and complicates the Congress' efforts to exercise budgetary control.

NET-BASED BORROWING AUTHORITY OFTEN ENTAILS "BACKDOOR" SPENDING

One objective of the Congressional Budget Act of 1974 was to improve congressional control over budget amounts by restricting the use of "backdoor" spending, i.e., the executive's use of budget authority not provided through the appropriation process. Section 401(a) of the act states the following:

"It shall not be in order in either the House of Representatives or the Senate to consider any bill or resolution which provides new spending authority * * * (or any amendment which provides such new spending authority), unless that bill, resolution, or amendment also provides that such new spending

authority is to be effective for any fiscal year only to such extent or in such amounts as are provided in appropriation Acts."

This provision only partially closed the door on backdoor spending, inasmuch as it did not rechannel into the appropriations process the programs that were already using existing backdoor authority. The netting case study programs in this review have registered borrowing authority on the basis of pre-1974 act legislative authorizations; and, except for the very recent case of HUD's Special Assistance Functions Fund, no borrowing authority has been provided in an appropriation act. 1/

We concur with the 1974 act's objective of restricting backdoor spending. Indeed, we have consistently held, both before and after passage of the 1974 act, that the public interest is best served when congressional control over Federal activities is exercised through periodic reviews and affirmative action in the appropriations process. Our report accordingly contains a recommendation related to this matter (see p. 36).

DISCUSSION OF OMB REASONS FOR USING THE NETTING PROCEDURE

As noted before, OMB's basic reasons for using the netting procedure were that the procedure

--results in more meaningful borrowing authority recordings, i.e., recordings that express the net impact on a lending source rather than the gross usage of the source; and

--is consistent with the relevant statutory borrowing provisions.

Our analysis of OMB's reasons follows.

Net impact information does not fully express new obligational authority

We acknowledge that information concerning the net impact on the Treasury of borrowing activities is useful information. It is appropriate that such information be provided in the budget schedules for each borrowing account.

1/Borrowing authority of \$500 million was provided in the Department of Housing and Urban Development--Independent Agencies Appropriations Act, 1979.

We do not believe, however, that such net impact information fully expresses the obligational authority made available for a given year. A "borrowing authority" amount should fully express obligational authority, and not simply the net impact on a lending source of borrowing authority. Borrowing authority calculated on the basis of gross borrowings would more accurately express obligational authority (at least obligational authority that is derived from authorized borrowings).

The reporting of budget information primarily on a net basis for public enterprise revolving funds results in incomplete and sometimes misleading information. Gross amounts are better measures of program and budget activities, and should supplement net measures to provide for full disclosure. We addressed this matter in our recent report 1/ in which we stated the following:

"* * * Accounting for public enterprise revolving funds in the Federal budget on a net outlay basis, whereby the accounts receipts are offset against gross outlays with only the difference being included in the budget figures, is misleading. It understates the true magnitude of Government activities as well as the impact of individual revolving fund programs. The Federal budget should disclose the magnitude of Federal activity in such a way as to provide a basis for estimating the impact of Government activity on the economy as a whole."

The logic of this analysis is equally applicable to calculations of borrowing authority. The net basis does not disclose the full magnitude of the obligational authority acquired through borrowing authority.

Also, the receipts of a public enterprise revolving fund do not normally revert to the general fund of Treasury, but, by statutory authorization, become part of the fund's "corpus" along with the initial capitalization and other funds, to be used and reused (the revolving practice) in the fund's cycles of operations. It appears that the logic of this revolving

1/"Revolving Funds: Full Disclosure Needed for Better Congressional Control," U.S. General Accounting Office, PAD-77-25, August 30, 1977, p. 88.

concept has been extended to some recordings of borrowing authority, i.e., where netting with the added rollover feature occurs. Under the netting, rollover approach, the Office of Management and Budget treats a borrowing authority recordings as if it automatically becomes a part of the fund's corpus, to be used and reused indefinitely for several cycles of borrowings and repayments.

We do not think it is sound budget policy to treat recordings of borrowing authority as permanent additions to a fund's corpus. Borrowing authority recordings represent levels of authorized borrowings. Borrowings, in turn, must be repaid; they are not permanent additions to the corpus.

Netting is consistent with statutory borrowing provisions

We agree that the netting procedure is consistent with the statutory provisions that authorize the borrowings. We do not suggest in any way that the procedure is illegal. Furthermore, the procedure probably reflects congressional intent, particularly in those programs operated under statutory authorizations that control the level of "outstanding" (i.e., net) borrowings.

GROSS-BASED BORROWING AUTHORITY, THOUGH AN IMPROVEMENT, MIGHT NOT FULLY EXPRESS OBLIGATIONAL AUTHORITY

During the work for this report we concluded that while gross-based borrowing authority recordings would express more completely the full amount of obligational authority provided through borrowing authority, there can be cases in public enterprise revolving fund programs (such as those covered here) when gross borrowing authority recordings, plus any other budget authority recordings (appropriations, etc.), may not fully express the obligational authority made available.

In these cases, budget authority recordings (including borrowing authority) often represent only a portion of each program's annual resources for entering obligations. Total resources also include the receipts made available through the cycle of program operations and assorted financing mechanisms (sale of assets, etc.)

For example, in three of this report's netting case study accounts--the Eximbank, the Rural Housing Insurance Fund, and the Rural Electrification and Telephone Revolving Fund--program operations include direct loans to persons and organizations whose repayments to the agencies constitute receipts that are available, within certain legislated limi-

tations (discussed further on page 32), making additional loans (obligations). The full new obligational authority in these cases, though not now treated as budget authority in executive and congressional budgetary systems, is the total amount of resources made available by law for entering obligations during the year, including the loan repayment receipts and other budgetary resources.

Rural Housing Insurance Fund illustration

Activities of the Rural Housing Insurance Fund's (RHIF) programs in fiscal year 1979 illustrate the point that under current practice recorded budget authority amounts in public enterprise revolving fund programs may represent only a part of the programs' new obligational authority. In that year, using the netting procedure, agency officials recorded about \$455 million in borrowing authority for RHIF programs; however, direct obligations totaled much more--about \$7 billion. This higher level of obligations was supported not only by borrowing authority, but also by about \$1 billion in loan repayment receipts, \$3.9 billion in receipts from sales of certificates of beneficial ownership, about \$335 million in appropriations, and the balance in receipts of other kinds.

The RHIF's budget authority recordings in fiscal year 1979--a borrowing authority amount of approximately \$455 million, and appropriation amounts totaling about \$335 million--taken separately or together, did not fully express the new authority for entering obligations that was made available by law to RHIF programs in fiscal year 1979. A better expression of the RHIF programs' obligational authority in that year would have recognized the fact that total new authority encompassed all of the financial resources available that year under law for entering obligations, including the repayments by rural borrowers, etc.

Even if borrowing authority for RHIF programs had been gross-based instead of net-based over the period of RHIF operations, the gross borrowing authority recordings, which could have reached approximately \$13 billion under prevailing borrowing patterns, 1/ plus appropriations amounts totaling about \$1 billion--\$14 billion total recorded budget authority 2/--would have incompletely expressed the full authority

1/Total of gross borrowings plus year-end uncovered obligations that required borrowing authority recordings.

2/The total might have been greater if all RHI sales of certificates of beneficial ownership, etc., had been treated as borrowings requiring borrowing authority, rather than as "sales of assets."

for entering obligations over that period. It is recalled (see table 5) that total RHIF direct obligations were about \$42 billion.

Legislated program level limitations in the case study netting, rollover programs

The fact that direct obligations have exceeded recorded budget authority amounts in all of the programs (see table 6) does not mean that the administrators of these programs have been unchecked by congressional budgetary controls. It is noted that in the three accounts with direct loan programs--the Eximbank, the Rural Electrification and the Telephone Revolving Fund, and Rural Housing Insurance Fund--there have been annual appropriation act loan level (i.e., loans to beneficiaries outside the Government) limitations that control loan obligations each year. For example, the relevant language affecting Eximbank in fiscal year 1979 was the following (Foreign Assistance and Related Programs Appropriations Act, 1979):

"Not to exceed \$5,347,345,000 (of which not to exceed \$3,750,000,000 shall be for direct loans) shall be authorized during the current fiscal year for other than administrative expenses."

These annually set limitations have not been treated as budget authority amounts. The situation was somewhat different with respect to HUD's Special Assistance Functions Bund nonemergency programs, where, until issuance of the budget for fiscal year 1981, the program level limitations (set in amendments to the basic legislation until fiscal year 1979 when the limitation was changed in an appropriation act) have been treated as budget authority amounts. This is discussed further in appendix III.

The President announced that in the 1981 budget a comprehensive system of proposed credit program controls, similar to the limitations seen in these case study programs, would entail program level limitations on Federal loan and loan guarantee activities.

CONCLUSIONS

Netting lessens congressional budget control by understating obligational authority

We conclude that netting results in, for congressional consideration and action, proposed borrowing authority amounts that understate the planned obligational authority based on

Table 6

Budget Authority Recordings and Direct Obligations in
the Netting Case Study Accounts, as of
September 30, 1979

Recorded Budget Authority
(cumulative all years)

	<u>Borrowing authority a/</u>	<u>Appropriations</u>	<u>Direct obligations (cumulative all years)</u>
----- (in billions) -----			
Export-Import Bank	\$14.0	None	\$49.4 <u>b/</u>
HUD's Special Assistance nonemergency	9.0	0.1	16.0 <u>c/</u>
USDA's Rural Electrification and Telephone Revolving Fund	3.7	None	7.0
USDA's Rural Housing Insurance Fund	3.7	1.4	41.5

a/For all borrowing whether from Treasury or non-Treasury sources.

b/For fiscal years from 1960 on.

c/Purchases.

borrowing authority. Gross-based borrowing authority more accurately and fully expresses authority, at least that derived from borrowing authority. If borrowing amounts are not gross-based, congressional controls on such amounts (net-based) will imperfectly control the obligational authority made available through borrowing authority. This runs counter to one of the basic objectives of the 1974 Congressional Budget Act, i.e., to enhance congressional control over the budget amounts.

Netting impairs congressional budget control by interjecting inconsistency into budget amounts

Also, the use of netting interjects an element of inconsistency into OMB's and the Congressional Budget Office's recordings and totals of proposed new funding levels ("budget authority"). Netting complicates the budgetary process when some new funding amounts in the President's budget and CBO's scorekeeping reports are gross-based (appropriations and some borrowing authority), and others are net-based. This inconsistency hampers the Congress' understanding of budget amounts, and confounds congressional efforts to compare funding levels and set priorities among programs and budget functions.

Netting entails "backdoor" spending

In several instances of net-based borrowing authority, the borrowing authority amounts are registered on the basis of legislative authorizations, with no appropriation action required. ^{1/} This constitutes "backdoor" spending and runs counter to a basic objective of the 1974 Congressional Budget Act, i.e., to subject budget authority actions to the discipline of the appropriations process.

Even gross-based borrowing authority, though an improvement, may not fully reflect obligational authority

Conversion from net-based to gross-based borrowing authority would result in budgetary amounts that more fully express total obligational authority made available through borrowing authority. However, such a change would satisfy only partially the need to develop budget authority concepts and recordings that more adequately express the obligational authority made available to revolving fund programs, such as the case study programs covered in this report. In our opinion, budget authority recordings for such programs are needed that more completely reflect the obligational authority made available by law, including any authority derived from program operations receipts and other revolving fund activities.

Several ways of overcoming these problems

We recognize that the undesirable results of current budget authority practices for such programs are the consequences of the interaction between the ways laws are written

^{1/}There may be appropriation act program level limitations.

providing budget authority and long-standing budget practices and conventions. Correcting the problem would require changing either the laws, or the budget conventions, or both. These corrections can be approached either (1) on a program-by-program basis or (2) through action affecting all programs simultaneously. Under either approach, the action can be taken by (1) statutory or (2) administrative action.

Program-by-program review

In the course of its authorization and appropriations action on revolving fund loan programs 1/ funded by borrowing authority, the Congress should consider the reduced opportunity for effective control and the inconsistency in treatment that results from the current methods for recording budget authority, including borrowing authority, for such programs. Where the Congress considers it feasible to do so, it should place specific limits on gross obligations, or at least gross loan obligations 2/ that may be incurred, and require that such limits be treated as the budget authority amounts. For example, this action could include specifying (preferably in appropriation acts) the volume of loans that can be made in a particular period. These limits should be set after considering the anticipated volume of repayments, but fluctuations in repayments should not automatically produce fluctuations in the limits on authorized lending.

Because the inconsistencies and other problems identified in this report stem, in part, from the way budget authority is computed under budget conventions established by OMB, we believe the problems could be eliminated also by administratively changing those conventions--specifically the definition of budget authority as it applies to revolving loan-type programs. Such a change could be accomplished pursuant to section 202(a)(1) of the Legislative Reorganization Act of 1970, as amended. A revised definition would be more

1/The budget treatment of HUD's Special Assistance Functions Fund programs should be similar to that of direct loan programs, i.e., limitations on SAF gross or program obligations should be treated as budget authority.

2/"Gross obligations" in a loan program would include all obligations including interest expense paid to holders of certificates of beneficial ownership, etc. "Gross loan obligations" might be limited to the obligations incurred in making the loans.

consistent with the definition of budget authority in section 3(a)(2) of the Congressional Budget Act of 1974 than is the present convention.

Across-the-board action

If, after a reasonable period, the Congress determines that program-by-program review either is proceeding too slowly, or is insufficiently responsive to the problem, it should enact legislation requiring approval in appropriation acts for the gross level of obligations, or gross loan obligations, for any existing or newly-enacted revolving fund loan program that is funded by borrowings, and treatment of such approved levels as the relevant budget authority. Similarly, OMB officials could at one time administratively change the definition of budget authority for all such programs to make budget authority correspond to authorized gross obligations or gross loan obligations.

Each of the alternatives outlined above has advantages and disadvantages. The principal objectives of action to be taken, however, should be (1) to assure adequacy of congressional controls; (2) to maintain consistency of presentation, to assure that like programs are treated alike; and (3) to disclose fully activities of the Government. A combination of actions will be necessary to achieve these purposes.

RECOMMENDATION TO THE DIRECTOR, OMB

The Director of the Office of Management and Budget should revise the way the definition of budget authority is applied to revolving fund loan programs so that budget authority for these programs is the amount of gross obligations, or gross loan obligations, authorized to be made. We believe the term "loan authority" may be appropriately used to describe budget authority in this form when it applies to gross loan obligations. We have not developed specific terminology and definitions for this report. We would prefer to do this, and address related technical matters, cooperatively, after some agreement has been reached on the optional approach to be taken.

RECOMMENDATION TO THE CONGRESS

The Congress, in reviewing revolving fund loan programs, should place specific limits on the gross obligations, or gross loan obligations, authorized to be made, and require that such limits be treated as the relevant budget authority amounts. This could be done on a program-by-program or across-the-board basis. We are prepared to work with the Congress on related technical matters.

AGENCY COMMENTS

We asked the case study agencies, Treasury, and OMB for comments on a draft of the report. Written comments provided and our responses are contained in appendixes VI, VII, and VIII.

LISTING OF CASE STUDY PROGRAMS AND ACCOUNTS

FISCAL YEAR 1978 TITLES AND NUMBERS

NET BASIS CASE STUDIES:

- The "Export-Import Bank of the United States" (budget account 83-4027).
- The Department of Housing and Urban Affairs (HUD) "Special Assistance Functions Fund," nonemergency program, borrowings from the Treasury (budget account 86-4205).
- The Department of Agriculture's (USDA) "Rural Electrification and Telephone Revolving Fund" loan authorizations (off-budget account 12-4230).
- USDA's "Rural Housing Insurance Fund," borrowings from the Treasury (budget account 12-4141).

GROSS BASIS CASE STUDIES:

- USDA's Rural Electrification "Loans" (budget account 12-3197).
- The "St. Lawrence Seaway Development Corporation" (budget account 69-4089).
- The Small Business Administration's "Business Loan and Investment Fund" (account 73-4154).
- HUD's "Special Assistance Functions Fund," nonemergency program borrowings from non-Treasury sources, and emergency program borrowings from the Treasury (budget account 86-4205). 1/
- USDA's "Rural Housing Insurance Fund," certain borrowings from non-Treasury sources (budget account 12-4141).

1/The fiscal year 1979 budget proposed to fund the emergency part in a new account to be entitled "Emergency Mortgage Purchase Assistance" (budget account 86-4207). This was approved in the Department of Housing and Urban Development--Independent Agencies Appropriation Act, 1979.

SUPPLEMENTAL MATERIAL ON THE NETTING BASIS
FOR COMPUTING BORROWING AUTHORITY

NETTING FOR PROGRAMS WITH
"INDEFINITE" AUTHORIZATIONS

Until the preparation of the fiscal year 1979 budget, the netting, rollover procedure was the OMB-prescribed method for calculating and recording borrowing authority in programs with "indefinite" 1/ borrowing authorizations. The netting, rollover procedure was (and is 2/) partially set forth in the following paragraphs from OMB's Examiners' Handbook, section 124, C (June 26, 1975):

"C. Budget treatment.

Balances of undrawn authority to spend debt receipts--that is, the portion authorized in excess of amounts actually borrowed--are separately identified in the budget schedules. Borrowing increases the fund balance of the account and decreases the balance of undrawn authority to borrow. Repayment of borrowing by a revolving fund has the opposite effect if the amount remains available for reborrowing * * *.

* * * * *

When the borrowing authority is indefinite, budget authority is recorded by the agency at the time obligations are incurred against such authority. The amount of budget authority for the year is based on net transactions for the year as a whole. Budget authority will usually be reported when the amount of borrowing outstanding plus obligated balances against such borrowing authority at the end of the year exceeds the amount previously recorded as budget authority."

The above may be paraphrased in the following manner. Borrowing authority was to be recorded under netting, rollover when the year-end sum of (1) cumulative net borrowings

1/The statutory borrowing authorization contains no dollar limit on borrowings.

2/As of December 14, 1979, the relevant section from the Examiner's Handbook has not been revised to reflect what OMB officials describe as their new nonrollover policy.

(i.e., outstanding borrowings) plus (2) unpaid obligations not covered by cash reserves on hand 1/ exceeds the total of previously recorded borrowing authority. As a part of this basic procedure, an agency's repayments of its borrowings were to be treated in executive branch records as repayments that roll over, or restore, 2/ previously recorded authority, making that authority, in the amount of the repayments, available again for new borrowings.

Illustration of netting, rollover under indefinite authorizations

The entries (hypothetical amounts) in table 7 for year #2 illustrate the recording of borrowing authority under OMB's general netting, rollover procedure for programs with indefinite authorizations. Gross borrowings (col. "1") and rolling over repayments (col. "2") had the effect of bringing cumulative net borrowings, i.e., the level of outstanding borrowings, to \$50 million (col. "3"). This amount plus year-end uncovered obligations (col. "4") produced a "needed authority" level of \$55 million (col. "5"), which represented a \$25 million increase (col. "6") over the cumulative total of previously recorded borrowing authority (col. "7" amount for prior year). Accordingly, there was recorded \$25 million in additional borrowing authority (col. "7").

Partial implementation of OMB's new nonrollover policy

OMB officials report that they initiated a new nonrollover policy during preparation of the fiscal year 1979 budget, pertaining only to programs with indefinite authorizations (not programs with statutory limits on outstanding borrowings). The new policy is stated in the following OMB Circular A-11 (May 25, 1979) definition of "redemption of debt" entries to be used by agencies in permanently lapsing previously

1/Unpaid obligations are not covered by cash reserves when the year-end total of unpaid obligations exceeds the total of cash in the account, or the portion of total cash designated as available for payment on the obligations.

2/The term "restore" is used in Treasury Department records. In budget records, such repayments are technically treated as repayments that increase "undrawn" or "unfinanced" borrowing authority, i.e., the portion of recorded authority in excess of actual borrowings.

recorded borrowing authority that becomes "freed up" after repayments or substitutions of other budgetary resources. 1/

"Amount of repayments for redemption of debt (e.g., participation certificates) where borrowing authority does not resolve. Include repayments of debt issued under permanent indefinite borrowing authority and withdrawals of balances of previously obligated permanent indefinite authority to borrow when other budgetary resources are substituted."
[sec. 32.4]

We noted in chapter 2 that the new policy has not been fully implemented. In fact, it has not been fully implemented in two of four case study programs subject to the new policy. Problems of implementation are briefly discussed in the immediately following case study material.

The new policy, when implemented in programs with indefinite authorizations, will only modify the netting procedure (by curtailing the rollover feature). The basic netting procedure, under which total borrowings may exceed recorded borrowing authority, will remain.

GAO case studies of netting indefinite authorization

Our case studies included four accounts with programs (mainly Federal credit-aid programs) having indefinite authorizations. Three are discussed below. The fourth, HUD's Special Assistance Functions Fund, is discussed in Appendix III because of certain special features. The three netting accounts covered below are the following:

- The Department of Agriculture's (USDA) off-budget account, "Rural Electrification and Telephone Revolving Fund" borrowings from the Treasury (off-budget account 12-4230);
- USDA's "Rural Housing Insurance Fund," borrowings from the Treasury (budget account 12-4141); and
- The Export-Import Bank of the United States ("Exim-bank"), borrowings from non-Treasury sources (budget account 83-4027).

1/Substitutions could occur when authority recorded in one year to cover unpaid obligations does not result in actual borrowings in subsequent years because of the substitution of other resources (e.g., sale of assets) to pay on the obligations.

Table 7

Multi-Year Illustration of Netting, Rollover Basis for
Computing Borrowing Authority

Program with an Indefinite Authorization a/
(hypothetical amounts, 000 omitted)

	<u>Gross borrowings</u>	<u>Gross rolling over repayments</u>	<u>Net repayments (-) or borrowings (+)</u>		<u>Uncovered obligations b/</u>
Year #1	\$ 100,000	\$ 75,000	\$ 25,000	plus	\$5,000
Year #2	100,000 (200,000)*	75,000 (150,000)*	25,000 (50,000)*	plus	5,000
Year #3	160,000 (360,000)	60,000 (210,000)	100,000 (150,000)	plus	5,000
Year #4	--- (360,000)	50,000 (260,000)	-50,000 (100,000)	plus	5,000
Year #5	50,000 (410,000)	25,000 (285,000)	25,000 (125,000)	plus	5,000
	(1)	(2)	(3)		(4)

*Cumulative in parentheses.

a/Program with a statutory authorization for borrowings that does not contain a dollar limit on borrowings.

b/Year-end unpaid obligations requiring a borrowing authority recording because of lack of cash reserves available (or assigned) for paying off the obligations.

	<u>Needed authority</u>	Increase (+) or decrease (-) in needed authority from recorded <u>authority</u>	<u>Borrowing authority recorded</u>	<u>Borrowing authority carried forward</u>
equals	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000
equals	55,000	25,000	25,000 (55,000)*	55,000
equals	155,000	100,000	100,000 (155,000)	155,000
equals	105,000	-50,000	--- (155,000)	155,000
equals	130,000	-25,000	--- (155,000)	155,000
	(5)	(6)	(7)	(8)

Rural Electrification and Telephone
Revolving Fund--borrowings from Treasury

The case study work determined that OMB's basic netting procedure, without rollover, is used in computing borrowing authority (for borrowings from Treasury) for the programs of the Rural Electrification and Telephone Revolving Fund, ^{1/} but that the procedure was not used in the initial years of the fund (fiscal years 1973-76), when, in a deviation from CMB guidance, gross-based recordings were made. ^{2/}

Key budgetary amounts pertaining to this fund's borrowings are seen in table 8. Total borrowings (column "3"), as of the end of fiscal year 1979, were about \$2.7 billion, which was less than total recorded borrowing authority of about \$3.7 billion (redemption of debt lapses over 1977-79 reducing authority to borrow from Treasury totaled about \$1.5 billion). As noted previously in this report (p. 13), the fund is relatively new, and it will require a longer period of borrowing activity before total borrowings exceed borrowing authority.

The borrowings are made as needed, and are executed under a single, blanket note requiring that all outstanding borrowings be paid off, with interest, on March 31 and September 30 of each year. The note also specifies the procedure for setting the applicable interest rate.

^{1/}RBA of officials anticipate that net borrowings each year normally will be zero, and that, therefore, recordings (when necessary) will, in practice only, reflect obligations in excess of receipts.

^{2/}USDA budget officials followed the grossing procedure used for the Rural Electrification "Loans" account (budget account 12-3197), the predecessor account of the Rural Electrification and Telephone Revolving Fund. The grossing procedure, with borrowing authority recordings matching the annually authorized (in appropriation acts) program levels, resulted in larger recorded amounts than would have been the case had OMB's netting, rollover procedure been followed. As a consequence, USDA and OMB officials permanently lapsed about \$1.4 billion in borrowing authority during the transition quarter ending September 30, 1976, when they converted the fund to the netting procedure.

Eximbank--borrowings from
non-Treasury sources

The basic netting procedure also has been used for Eximbank's borrowings from non-Treasury sources, mainly the Federal Financing Bank in recent years. Furthermore, rollover has remained a feature of this activity in spite of OMB's new policy, although this may change in fiscal year 1981 as a result of our review (see below).

Although in fiscal year 1977 Eximbank made repayments of principal totaling \$3.6 billion on its prior year borrowings from non-Treasury sources (total repayments were \$3.7 billion) it did not permanently lapse any authority that year as called for by OMB policy. It carried \$1.3 billion into fiscal year 1978 as unobligated authority (for non-Treasury borrowings) from prior recordings of borrowing authority, representing rolled-over authority. A similar pattern occurred in fiscal years 1978 and 1979, 1/ and is projected in the fiscal year 1981 budget for fiscal year 1980, but not for 1981.

During our review, Eximbank officials stated that they had continued the rollover practice in recent years because they had not been advised by OMB to change the practice. OMB officials acknowledged that the policy had not been implemented in this case, and stated that this Eximbank procedure was "in transition" to nonrollover. In their comments on this report (see appendix VI), officials of OMB pointed out that in response to our review work, the budget treatment for Eximbank would be corrected in the 1981 budget. The 1981 budget shows that nonrollover is projected for 1981, but shows continued rollover for fiscal years 1979 (actual) and 1980 (projected).

The netting, rollover procedure has been complicated because Eximbank officials, for purposes of computing borrowing authority for their non-Treasury borrowings, reduce the amount of year-end uncovered obligations by the amount of their unused authority for Treasury borrowings (Eximbank also has a statutory authorization to borrow from Treasury-- see page 49).

Under this procedure, Eximbank has recorded about \$8 billion in total borrowing authority for its non-Treasury

1/The \$1.3 billion lapse in fiscal year 1978 was unrelated to the rollover question (it reflected on OMB-Eximbank decision to stop using borrowing authority for loan guarantees), and did not entail a line #31 "redemption of debt" entry.

Table 8

Rural Electrification and Telephone Revolving Fund
Authority to Borrow From Treasury

(000 omitted)

<u>Fiscal year</u>	<u>Total program level</u>	<u>Recorded borrowing authority</u>	<u>Gross borrowings</u>
1973	\$ 479,000 (479,000)*	\$ 1,324,871 <u>a/</u> (1,324,871)*	\$ - (-)*
1974	758,000 (1,237,000)	758,000 (2,082,871)	400,100 (400,100)
1975	900,000 (2,137,000)	900,000 (2,982,871)	445,771 (845,871)
1976	1,000,000 (3,137,000)	1,000,000 (3,982,871)	369,005 (1,214,876)
TQ	250,000 (3,387,000)	-1,375,452 <u>b/</u> (2,607,419)	96,098 (1,310,974)
1977	1,000,000 (4,387,000)	605,001 <u>d/</u> (3,212,420)	560,107 (1,871,081)
1978	1,000,000 (5,387,000)	355,289 <u>f/</u> (3,567,709)	304,811 (2,175,892)
1979	1,100,000 (6,387,000)	133,960 <u>g/</u> (3,701,669)	566,093 (2,741,985)
	(1)	(2)	(3)

*Cumulative in parentheses.

a/Includes \$479 million in recorded authority for RETRF and \$845.9 million in unadvanced balances transferred from REA "Loans."

b/A lapsing adjustment made by USDA and CMB officials to correct for previous recordings not made in accordance with OMB's netting, rollover procedure.

c/Calculated from cumulative amounts in columns (2) and (3).

d/Includes \$149.4 million in recorded authority for RETRF, and \$455.6 million in unused authority transferred from

<u>Repayments of borrowings</u>	<u>Net borrowings (-) or repayments (+)</u>	<u>Gross borrowings in excess of recorded borrowing authority</u>
\$ - (-)*	\$ - (-)*	\$ - (-)*
- (-)	-400,100 (-400,100)	- (-)
- (-)	-445,771 (-845,871)	- (-)
266,195 (266,195)	-102,810 (-948,681)	- (-)
198,908 (465,103)	102,810 (-845,871)	96,098 (-) c/
104,472 (569,575)	-455,635 e/ (-1,301,506)	- (-) c/
304,811 (874,386)	- (-1,301,506)	- (-) c/
566,093 (1,440,479)	- (-1,301,506)	432,133 (-) c/
(4)	(5)	(6)

REA "Loans." Amount not adjusted downward in this table to reflect a permanent lapsing of year-end authority ("redemption of debt") of \$1.1 million.

e/Corresponds to the transfer of budget authority of the same amount from the REA "Loans" account.

f/Not adjusted downward in this table to reflect a redemption of debt of \$224,000.

g/Not adjusted downward in this table to reflect a redemption of debt of \$135,000.

borrowings (no redemption of debt lapses over 1977-79), which it has used and rolled over several times to borrow a total of about \$23 billion, as of September 30, 1979. Key amounts are shown in table 9.

The promissory notes signed by Eximbank officials concerning their borrowings from the Federal Financing Bank specify certain maturity periods (up to 11-1/2 years), repayments schedules quarterly or at maturity, and interest rates.

Rural Housing Insurance Fund amounts--
borrowings from Treasury

This case also involves continued rollover as part of the netting practice. Even though there were repayments ranging from \$275 million to \$450 million in fiscal years 1977-79 on prior year borrowings made under prior year recordings of borrowing authority, there were no permanent lapses of authority in these years pertaining to these repayments. ^{1/} While the budget for 1981 does not project a permanent lapse for 1980, it projects one for 1981 reflecting some projected repayments to the Treasury during that year.

No permanent lapses are indicated in the fiscal year 1981 budget for the fiscal years 1979 and 1980 appropriations of about \$14 million and \$76 million respectively to make payments on rental assistance program obligations for which borrowing authority had previously been recorded. The appropriation would constitute a substitution of budgetary resources. OMB officials state in their comments on this report that there have been no indications of continuing rollover in this account (see appendix VI). We disagree with this OMB statement.

Gross borrowings exceeded total recorded borrowing authority by about \$2 billion in the Rural Housing Insurance Fund, as of September 30, 1979 (no redemption of debt lapses in 1977-79 affecting authority to borrow from the Treasury). Amounts are seen in table 10.

Borrowings from Treasury are made as needed, and are conducted under a single, blanket promissory note that permits up to \$1 billion in outstanding borrowings, states the procedures for setting the applicable interest rate, and specifies that all borrowings during a fiscal year must be repaid on the first day of the immediately succeeding fiscal year.

^{1/}There were redemption amounts pertaining to participation sales transfers (e.g., about \$35 million in fiscal year 1978).

NETTING, ROLLOVER FOR PROGRAMS
WITH LIMITED AUTHORIZATIONS

The OMB Examiners' Handbook does not provide instructions on recording borrowing authority for programs operated under statutory dollar limits on the amount of borrowings that may be "outstanding" at any one time. OMB officials state that their normal procedure in such cases is to record initial borrowing authority amounts to match initial statutory dollar limits. When a dollar limit is increased, there is a borrowing authority recording in the same amount. There are no lapses of year-end unused authority. 1/

Such recordings of borrowing authority express authorized cumulative net borrowings (outstanding borrowings). Repayments of borrowings are treated in executive branch records as repayments that rollover previously recorded authority, freeing it up (in the amount of the repayments) for new borrowings. Consequently, total (gross) borrowings may exceed recorded authority.

GAO case study of Eximbank--
borrowings from Treasury

Our case study work included examination of the budget treatment of Eximbank's borrowings from Treasury conducted under a statutory dollar limit on outstanding borrowings--the limit now stands (September 30, 1979) at about \$6 billion. The limit was raised three times by legislative actions: 1952, 1955, and 1958 (latest). In each of those years, borrowing authority was recorded to correspond with the difference between the old and new limit. For example, when the limit was raised from \$4 billion to \$6 billion in 1958, \$2 billion in borrowing authority was recorded.

This procedure, plus some earlier recordings of borrowing authority, 2/ produced a total of \$5.7 billion (\$6 billion in internal Eximbank records) in borrowing authority for

1/See discussion on pp. 10, 11, especially footnote 1/, on p. 11.

2/Recordings for Eximbank in fiscal years 1946, 1947, and 1948, totaling \$2.2 billion, represented the initial capitalization (1946 recording) or borrowings for the year in excess of repayments (1947 and 1948 recordings).

Table 9
Export-Import Bank
Authority to Borrow from Non-Treasury Sources
(000 omitted)

Prior to 1967	Fiscal year and debt instrument	Recorded borrowing authority	Gross borrowings	Repayments of borrowings which rollover authority	Net borrowings (-) or repayments (+)	Gross borrowings in excess of recorded borrowing authority
		(-)*	(-)* a/ d/	(-)*	(-)*	(-)*
1967	Agency Securities Participation Certificates	778,610 (778,610)	1,411,000 (1,411,000)	632,390 (632,390)	-778,610 (-778,610)	632,390 (632,390)
1968	Agency Securities Participation Certificates	406,917 -	487,150 570,000 (2,468,190)	99,725 550,548 (1,282,663)	-387,465 -19,452 (-1,185,527)	80,273 570,000 (1,282,663)
1969	Agency Securities Participation Certificates	- -	1,453,055 (3,921,245)	1,182,375 369,115 (2,834,153)	-270,680 369,115 (-1,087,092)	1,453,055 - (2,735,718)
1970	Agency Securities Participation Certificates	- -	- (3,921,245)	258,145 321,154 (3,413,452)	258,145 321,154 (-507,793)	- - (2,735,718)
1971	Agency Securities Participation Certificates	54,363 -	2,500,000 (6,421,245)	1,500,000 267,903 (5,181,355)	-1,000,000 267,903 (-1,239,890)	2,445,637 - (5,181,355)
1972	Agency Securities Participation Certificates	- -	800,000 (7,221,245)	1,000,000 606,241 (6,787,596)	200,000 606,241 (-433,649)	800,000 - (5,981,355)

1973	Agency Securities	2,304,482 (3,544,372)	843,115 (8,064,360)	440,714 (7,228,310)	-402,401 (-836,050)	- (4,519,988)
1974	Agency Securities	2,096,267 (5,640,639)	1,000,000 (9,064,360)	327,321 (7,555,631)	-672,679 (-1,508,729)	- (3,423,721)
1975	Agency Securities	1,443,372 (7,084,011)	4,049,400 (13,113,760)	300,620 (7,856,251)	-3,748,780 (-5,257,509)	2,606,028 (6,029,749)
1976	Agency Securities	727,597 b/ (7,811,608)	2,594,497 (15,708,257)	1,549,800 (9,406,051)	-1,044,697 (-6,302,206)	1,866,900 (7,896,649)
TQ	Agency Securities	383,532 b/ (8,195,140)	638,486 (16,346,743)	437,450 (9,843,501)	-201,036 (-6,503,242)	254,954 (8,151,603)
1977	Agency Securities	- (8,195,140) c/	4,150,568 (20,497,311)	3,728,221 (13,571,722)	-422,347 (-6,925,589)	4,150,568 (12,302,171)
1978	Agency Securities	- (8,195,140) c/	758,040 (21,255,351)	830,809 (14,402,531)	72,769 (-6,852,820)	758,040 (13,060,211)
1979	Agency Securities	104,682 (8,299,822) c/	1,701,657 (22,957,008)	1,524,206 (15,926,737)	-177,451 (-7,030,271)	1,596,975 (14,657,186)
		(1)	(2)	(3)	(4)	(5)

*Cumulative in parentheses.

a/Prior to fiscal year 1967, participation certificates were not treated as borrowings; therefore, prior to that fiscal year, this study has not included them.

b/Identified in the budget as "authority to spend debt receipts." In this case, amounts represent authority to borrow from non-Treasury sources.

c/No year-end unused authority permanently lapsed ("redemption of debt") under OMB's new guidelines on unused authority implemented for fiscal year 1977 on.

Table 10
Rural Housing Insurance Fund
Authority to Borrow from Treasury
 (000 omitted)

Fiscal year	Recorded borrowing authority	Gross borrowings b/	Repayments of borrowings which rollover authority b/	Net borrowings (-) or repayments (+)	Gross borrowings in excess of recorded borrowing authority
1966	\$ -	\$ -	\$ -	\$ -	-
1967	-	-	-	-	-
1968	72,606	44,580	20,980	-23,600	-
1969	104,465 (177,071)*	37,490 (422,070)*	335,690 (356,670)*	-41,800 (-65,400)*	273,025 (244,999)* c/
1970	(732,789) d/	391,940 (1,694,010) a/	457,340 (1,138,292) e/	65,400 (-555,718) a/, e/	391,940 (961,221) c/
1971	(732,789)	(1,694,010)	(1,138,292)	(-555,718)	(961,221) c/
1972	61,713 (794,502)	(1,694,010)	(1,138,292)	(-535,718)	(899,508) c/
1973	24,460 (818,962)	(1,694,010)	(1,138,292)	(-555,718)	(975,048) c/
1974	1,485,721 (2,304,683)	925,000 (2,619,010)	(1,138,292)	-925,000 (-1,480,718)	(314,327) c/

1975	(2,304,683)	950,000 (3,569,010)	1,875,000 (3,013,292)	925,000 (-555,718)	350,000 (1,264,327) c/
1976	(2,304,683)	200,000 (3,769,010)	(3,013,292)	-200,000 (-755,718)	200,000 (1,464,327) c/
TQ	(2,304,683)	275,000 (4,044,010)	200,000 (3,213,292)	-75,000 (-330,718)	275,000 (1,739,237) c/
1977	330,163 (2,634,846)	300,000 (4,344,010)	275,000 (3,488,292)	-25,000 (-855,718)	(1,709,164) c/
1978	338,457 (2,973,303)	450,000 (4,794,010)	300,000 (3,788,292)	-150,000 (-1,005,718)	111,543 (1,820,707) c/
1979	454,793 (3,428,096)	450,000 (5,244,010)	450,000 (4,238,292)	(-1,005,719)	(1,815,914) c/
	(1)	(2)	(3)	(4)	(5)

*Cumulative in parentheses.

- a/Includes \$880 million transferred from the Rural Housing Direct Loan account, as per act of December 24, 1969 (83 Stat. 399).
- b/Includes \$1.7 billion in borrowings and repayments made simultaneously on the first day of the fiscal year on prior year notes due (debt was "rolled forward").
- c/Calculated from amounts in columns (1) and (2).
- d/Includes \$555.7 million added by FMHA to the fund's budget authority when \$555.7 million in outstanding borrowings of the Rural Housing Direct Loan account were merged with the borrowings of the RHIF in 1970. FMHA officials state that borrowing authority totaling \$555.7 million probably had been recorded for these borrowings in preceding years in the Rural Housing Direct Loan account (\$150 million) and its predecessor account, the Direct Loan account.
- e/Includes \$324.3 million transferred from the Rural Housing Direct Loan account.

Eximbank. 1/ Because borrowing authority represents an authorized level of net borrowings (\$6 billion), Eximbank's repayments of its borrowings are counted as repayments that rollover authority, and several cycles of borrowings, may be conducted under one borrowing authority amount. Although Eximbank outstanding borrowings from Treasury never exceeded the \$6 billion limit, its gross borrowings reached about \$31 billion by September 30, 1979--about \$25 billion more than recorded authority.

Key amounts are shown in table 11. Eximbank's Treasury borrowings are made as needed, and are now made under promissory notes requiring quarterly payoffs of all outstanding amounts (coinciding with Eximbank quarterly borrowings from the Federal Financing Bank).

1/Because Eximbank does not maintain detailed budgetary records from the earlier years, we have been unable to identify the source of the difference between the \$5.7 billion and the \$6 billion.

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Table 11
Export-Import Bank
Authority to Borrow from Treasury

(000 omitted)

<u>Fiscal year</u>	Increase or decrease (-) in authorized ceiling on outstanding borrowings from the Treasury	<u>Recorded borrowing authority</u>	<u>Gross borrowings</u>
1946 to 1967	\$(6,000,000)*	\$(5,745,200)**	\$(9,352,700)**
1967	- (6,000,000)	- (5,745,200)	906,200 (10,258,900)
1968	- (6,000,000)	- (5,745,200)	1,878,179 (12,137,079)
1969	- (6,000,000)	- (5,745,200)	1,708,886 (13,845,965)
1970	- (6,000,000)	- (5,745,200)	1,555,990 (15,401,955)
1971	- (6,000,000)	- (5,745,200)	1,978,368 (17,380,323)
1972	- (6,000,000)	- (5,745,200)	2,677,970 (20,058,293)
1973	- (6,000,000)	- (5,745,200)	1,883,700 (21,941,993)
1974	- (6,000,000)	- (5,745,200)	1,833,800 (23,775,793)
1975	- (6,000,000)	- (5,745,200)	2,134,164 (25,909,957)
1976	- (6,000,000)	- (5,745,200)	1,168,600 (27,078,557)
TQ	- (6,000,000)	- (5,745,200)	314,400 (27,392,957)
1977	- (6,000,000)	- (5,745,200)	1,315,400 (28,708,357)
1978	- (6,000,000)	- (5,745,200)	1,030,100 (29,738,457)
1979	- (6,000,000)	- (5,745,200)	1,504,500 (31,242,957)
	(1)	(2)	(3)

*Ceiling in parentheses.

**Cumulative in parentheses.

Repayments of borrowings which rollover authority	Net borrowings (-) or repayments (+)	Gross borrowings in excess of recorded borrowing authority
\$ (9,174,900)**	\$ (-177,800)**	\$ (3,607,500)**
1,084,000	177,800	906,200
(10,258,900)	(0)	(4,513,700)
1,516,600	-361,579	1,878,179
(11,775,500)	(-361,579)	(6,391,879)
1,350,278	-358,608	1,708,886
(13,125,778)	(-720,187)	(8,100,765)
689,737	-866,253	1,555,990
(13,815,515)	(-1,586,440)	(9,656,755)
2,781,343	802,975	1,978,368
(16,596,858)	(-783,465)	(11,635,123)
1,718,005	-959,965	2,677,970
(18,314,863)	(-1,743,430)	(14,313,093)
1,739,466	-144,234	1,883,700
(20,054,329)	(-1,887,664)	(16,196,793)
1,264,562	-569,238	1,833,800
(21,318,891)	(-2,456,902)	(18,030,593)
4,383,989	2,249,825	2,134,164
(25,702,880)	(-207,077)	(20,164,757)
1,364,853	196,253	1,168,600
(27,067,733)	(-10,824)	(21,333,357)
252,200	-62,200	314,400
(27,319,933)	(-73,024)	(21,647,757)
1,385,101	69,701	1,315,400
(28,705,034)	(-3,323)	(22,963,157)
1,033,423	3,323	1,030,100
(29,738,457)	(-)	(23,993,257)
1,454,500	-50,000	1,504,500
(31,192,957)	(-50,000)	(25,497,757)
(4)	(5)	(6)

BORROWING AUTHORITY FOR THE DEPARTMENTOF HOUSING AND URBAN DEVELOPMENT'SSPECIAL ASSISTANCE FUNCTIONS FUND--BORROWINGS FROM TREASURY

The programs in the Department of Housing and Urban Development's (HUD) Special Assistance Functions Fund (budget account 86-4205) have "indefinite" statutory authorizations for borrowings from Treasury (no dollar limit). ^{1/} As such, they would normally have been subjected to the OMB netting procedure outlined for the Type #1 program in table 1 of this report (p. 8), and discussed in greater detail in appendix II. There has been, however, different budgetary treatment for these programs' Treasury borrowings. Two major differences are:

- the net-based borrowing authority recordings for the account's nonemergency programs have only indirectly represented authorized borrowings; and
- the borrowing authority recordings for the emergency programs indirectly express levels of gross borrowings.

NET-BASED BORROWING AUTHORITY FOR
THE NONEMERGENCY PROGRAMS

The borrowing authority recordings for the nonemergency programs in the Special Assistance Functions Fund (the "SAF" account) ^{2/} are net-based, but until the 1981 budget's issuance only indirectly represented authorized borrowings. Each recording was not computed in accordance with the general OMB netting, rollover procedure for programs with indefinite authorizations, but rather represented a statutory level, or increase therein, in SAF's authorized net program activities (to be financed largely with borrowings).

^{1/}For a discussion of the fund's borrowings from non-Treasury sources, see appendix IV.

^{2/}The emergency program was transferred to a separate account in fiscal year 1979, in accordance with the Department of Housing and Urban Development--Independent Agencies Appropriation Acts, 1979 (Public Law 95-392).

Borrowing authority equaled
authorized program level

The OMB Examiners' Handbook, section 124, C (July 26, 1975), described borrowing authority recordings for the SAF nonemergency programs as follows:

"For the Government National Mortgage Association's Special assistance functions fund [sic], there is a limitation on total outstanding [i.e., the balances outstanding on the mortgages purchased and held in the SAF account, plus the amounts of purchase commitments] and indefinite authority to borrow from Treasury. When the limitation on loans [purchases and purchase commitments] outstanding is increased, budget authority (authority to spend public debt receipts) is reported equal to the increase."

Put somewhat differently, each borrowing authority recording (before the 1981 budget's entries for 1980 and 1981) matched the amount of any statutory increase in the amount of mortgage loan purchases and purchase commitments that may be outstanding at any one time, and that may be financed with borrowings from Treasury.

A possible exception occurred when the 1979 increase of \$2 billion (Department of Housing and Urban Development--Independent Agencies Appropriation Act, 1979) was reflected in a borrowing authority recording of only \$500 million. HUD officials explain that the "intent" was to raise the ceiling by only \$500 million, not \$2 billion. HUD officials normally finance their purchases with borrowings from Treasury (the collections from sales of SAF-held mortgages are used to pay off borrowings).

An example of a borrowing authority recording for the SAF nonemergency programs may be seen in a budget recording for fiscal year 1968. When the Housing and Urban Development Act of 1965 (Public Law 89-117) increased by \$550 million the amount of commitments and purchases which could be outstanding in the account's Section 305(a) "Presidential" programs, effective on the first day of fiscal year 1968, there was a borrowing authority recording for fiscal year 1968 of \$550 million. The result of this and similar actions was the borrowing authority recordings that totaled about \$8 billion by the end of fiscal year 1979.

OMB officials state that there was no compelling budget concepts reason for this special pre-1981 budget method of recording borrowing authority (to match an authorized program

level) for the SAF programs. OMB acknowledges that the method represented a departure from their usual procedure for recording borrowing authority for programs with indefinite borrowing authorizations. However, as in other programs with indefinite borrowing authorizations, SAF borrowing authority was (and is) to be permanently lapsed ("redemption of debt") under OMB's new lapsing policy for such programs. There were, though, no such lapses in SAF's nonemergency authority to borrow from Treasury until publication of the 1981 budget.

Borrowing authority has rolled over

Because the borrowing authority recordings for the SAF nonemergency programs have represented authorized cumulative net (outstanding) purchases and purchase commitments, HUD officials have reduced the amount of unused borrowing authority when they make purchases or commitments, and increased or restored, unused authority when they liquidate the purchases or commitments through their sales program or cancellations. These restored amounts have constituted rolled-over authority for additional purchases-commitments to be financed with borrowings from Treasury.

In this manner, several cycles of purchases, sales, and more purchases have been conducted (subject to legislative constraints introduced in 1978--see below) with gross purchases, and supportive gross borrowings, exceeding the \$8 billion in recorded borrowing authority. By the end of fiscal year 1979, gross purchases for the nonemergency programs totaled about \$16 billion, and gross borrowings from Treasury were about \$14 billion. Key budgetary amounts are shown in table 12.

Borrowing instrument

Borrowings are made as needed, and are executed under a single, blanket note (there is a second note for the emergency program) with Treasury that permits up to \$6.5 billion outstanding at any time, states the procedure for setting applicable interest rates, and specifies that borrowings during a fiscal year must be repaid within 5 years from the beginning of that fiscal year.

New statutory limitation on "recaptured" authority

The Department of Housing and Urban Development--Independent Agencies Appropriation Act, 1978 (Public Law 95-119), contained provisions that introduced statutory limits on HUD officials' use of rolled-over or restored authority for making

new purchases and commitments. There were two relevant provisions in the 1978 HUD appropriation act.

Title III of the act stipulated that the "collections" in all SAF programs (nonemergency and emergency) and certain other HUD programs, " * * * may be used for new loan or mortgage purchase commitments only to the extent expressly provided for in this act * * *." HUD and OMB officials state that SAF "collections" in this context meant recaptured SAF authority, i.e., SAF authority that is restored or rolled over when outstanding purchases are reduced by SAF sales. A second provision of the 1978 act, pertaining only to the SAF accounts, authorized the limited use of "recaptured authority" in SAF's nonemergency programs:

"The aggregate amount of purchases and commitments authorized to be made pursuant to section 305 of the National Housing Act, as amended, out of recaptured Special Assistance Purchase authority may not exceed \$2,000,000,000."

This authorization to use \$2 billion of recaptured authority did not entail any recording in the budget of additional borrowing authority for the SAF nonemergency programs, because the statutory ceiling on outstanding nonemergency purchases and commitments was not increased.

These statutory restrictions on HUD's use, in 1978, of recaptured SAF authority limited, but did not eliminate, the rollover of SAF nonemergency authority to make purchases and commitments. The gap increased between the \$8 billion (approximately) total in borrowing authority recordings and the amount of gross borrowings from the Treasury (gross borrowings up to about \$14 billion).

Lack of implementation until 1981 budget,
of OMB's new nonrollover policy

OMB officials state that the SAF nonemergency program's borrowings from Treasury have been subject to the new non-rollover policy. They note that the program has operated under an indefinite authorization for Treasury borrowings (as the other programs subject to the new policy); and, in addition, has been affected since fiscal year 1978 by annual appropriation act limitations on the use of recaptured mortgage purchase and commitment authority (see prior discussion on p. 60), restricting rollover to specified levels.

OMB officials state that the above factors have made the SAF nonemergency program subject to the application of non-rollover concepts. However, the fiscal year 1979 budget

Table 12
Special Assistance Functions Fund--Non-Emergency Activities
Authority to Borrow from Treasury

(000 omitted)

Fiscal Year	Statutory increase in authorized ceiling on outstanding purchases and commitments	Recorded borrowing authority a/	Gross borrowings	Repayments of borrowings which rollover authority	Net borrowings (-) or repayments (+)	Gross borrowings in excess of recorded borrowing authority
Prior to 1967	\$ 3,525,000 (3,525,000)*	\$ 3,525,000 (3,525,000)**	\$ 2,593,988 (2,593,988)**	\$ 1,894,528 (1,894,528)**	\$ -699,460 (-699,460)**	- (-)**
1967	500,000 (4,025,000)	500,000 (4,025,000)	314,504 (2,908,492)	460,050 (2,354,578)	145,546 (-553,914)	- (-)
1968	550,000 (4,575,000)	550,000 (4,575,000)	604,100 (3,512,592)	252,230 (2,606,808)	-351,870 (-905,784)	54,100 (-)
1969	525,000 (5,100,000)	525,000 (5,100,000)	533,290 (4,045,882)	40,150 (2,646,958)	-493,140 (-1,398,924)	8,290 (-)
1970	2,750,000 (7,850,000)	2,750,000 (7,850,000)	781,557 (4,827,439)	50,320 (2,697,278)	-731,237 (-2,130,161)	- -
1971	- (7,850,000)	- (7,850,000)	619,520 (5,446,959)	147,747 (2,845,025)	-471,773 (-2,601,934)	619,520 (-)
1972	- (7,850,000)	- (7,850,000)	708,266 (6,155,225)	210,190 (3,055,215)	-498,076 (-3,100,010)	708,266 (-)
1973	- (7,850,000)	- (7,850,000)	944,495 (7,099,720)	1,072,090 (4,127,305)	-127,595 (-2,972,415)	944,495 (-)

1974	(7,850,000)	(7,850,000)	1,165,350 (8,265,070)	1,079,330 (5,206,635)	-86,020 (-3,058,435)	1,165,350 (415,070) <u>b/</u>
1975	(7,850,000)	(7,850,000)	2,781,150 (11,046,220)	989,590 (6,196,225)	-1,791,560 (-4,849,995)	2,781,150 (3,196,220) <u>b/</u>
1976	(7,850,000)	(7,850,000)	1,457,309 (12,503,529)	1,804,005 (8,000,230)	345,696 (-4,503,299)	1,457,309 (4,653,529) <u>b/</u>
TQ	(7,850,000)	(7,850,000)	589,268 (13,092,797)	184,040 (8,184,270)	-405,228 (-4,908,527)	589,268 (5,242,797) <u>b/</u>
1977	(7,850,000)	(7,850,000)	566,940 (13,659,737)	1,333,965 (9,518,235)	767,025 (-4,141,502)	566,940 (5,809,737) <u>b/</u>
1978	(7,850,000)	(7,850,000) <u>c/</u>	379,280 (14,039,017)	384,185 (9,902,420)	4,905 (-4,136,597)	379,280 (6,189,017) <u>b/</u>
1979	2,000,000 (9,850,000)	500,000 (8,350,000) <u>d/</u>	354,965 (14,393,982)	270,145 (10,172,565)	-84,820 (4,221,477)	354,965 (6,043,982) <u>b/</u>
	(1)	(2)	(3)	(4)	(5)	(6)

*Ceiling in parentheses.

**Cumulative in parentheses.

d/Amounts for fiscal years 1962-1971 are exclusive of \$700 million in reductions stemming from the gradual termination of the Section 305(g) program, as per Public Law 87-70 (75 stat. 176). These reductions ranged in amount from a low of \$1 million, in fiscal year 1970, to \$294 million in fiscal year 1966. In the budget these reductions were treated as rescissions of borrowing authority to borrow from the Treasury. Also, amounts for fiscal years 1962-1965 do not reflect \$603.1 million transfers to the fund of unobligated borrowing authority from the Management and Liquidating Functions account, as per law (75 stat. 149). These adjustments would produce a cumulative total, as of the end of the transition quarter, of about \$8.0 billion.

b/Calculated from cumulative amounts in columns (2) and (3).

c/Amount not adjusted downward in this table to reflect \$82.4 million permanent lapsing ("redemption of debt") of year-end unused authority.

d/Amount not adjusted downward in this table to reflect a \$2.5 billion permanent lapsing ("redemption of debt") of year-end unused authority.

showed no permanent lapse for fiscal year 1977, even though about \$1.3 billion in mortgage purchase authority was recaptured through sales of portfolio holdings, and repayments of about \$1.3 billion were made to Treasury on prior year borrowings. Balances of \$5.2 and \$5.1 billion in, respectively, mortgage purchase authority and unobligated borrowing authority were carried forward into fiscal year 1978. A like pattern occurred for fiscal year 1978, with balances carried into fiscal year 1979.

We discussed this continuing rollover with OMB and HUD officials, and, as a result, the 1981 budget implemented non-rollover procedures for the account (see OMB comments in appendix V). The method of recording borrowing authority for the fund was also revised in the 1981 budget for fiscal years 1980 and 1981. The new method reportedly puts the recordings on the netting basis used in other accounts with permanent indefinite authority to borrow.

GROSS-BASED BORROWING AUTHORITY FOR THE ACCOUNT'S EMERGENCY PROGRAM

HUD also administers a relatively new (begun in fiscal year 1975) emergency mortgage purchase assistance program that was, until the end of fiscal year 1978, part of the SAF account (see footnote 2/ on page 58). This emergency program is operated under legislative provisions and budgetary procedures that are, in many key respects, like those affecting the nonemergency program:

- There is an indefinite statutory authority to borrow from Treasury.
- Borrowing authority recordings for Treasury borrowings (totaling \$12.8 billion) have matched statutory increases in the amount of purchases and commitments that could be outstanding at any time (ceiling now at \$12.8 billion).
- Borrowing authority is to be permanently lapsed ("redemption of debt") in accordance with the new OMB policy on nonrollover in programs with indefinite authority.

Borrowing authority not rolled over

The principal budgetary difference between the SAF emergency and nonemergency programs is that OMB and HUD officials have not rolled over the emergency program's authority for making purchases and commitments because of administrative, or, since 1978, statutory restrictions.

Administrative restrictions

OMB and HUD officials state that because of the program's "emergency" origins and rationale, they chose, prior to 1978, to treat its \$12.8 billion statutory ceiling on outstanding purchases and commitments as a one-time authorization for a total (gross) of \$12.8 billion in purchases and commitments. As a consequence, after initial purchases and commitments were made, using up part of the ceiling and recorded borrowing authority, administering officials did not count liquidations of those purchases and commitments as actions that recapture, or restore (rollover), old authority for another cycle of purchases and liquidations.

Statutory restriction

The administratively-set procedure of nonrollover became a statutorily-required procedure with enactment of the 1978 HUD appropriation act (see discussion on page 60).

Under the nonrollover procedure for this HUD emergency program, total purchases will be limited to no more than \$12.8 billion, and attendant borrowings from Treasury probably will be limited to the same total.

However, this nonrollover policy was not reflected in actual permanent lapsing of authority in the schedules of the budgets for fiscal years 1979 and 1980, even though there were recaptures of authority (sales of portfolio holdings) and repayments of Treasury on prior year borrowings. This was changed, however, in the 1981 budget, with entries for permanent lapsings.

As seen in table 13, borrowing authority recordings totaled \$12.8 billion by 1979, and total (gross) borrowings from the Treasury reached \$4.9 billion. There were no permanent lapses ("redemption of debt") in fiscal years 1977 and 1978, but a \$10.1 billion lapse in 1979.

Borrowing instrument

Borrowings for the emergency program are made as needed, and are conducted under a single, blanket note with Treasury that permits up to \$4 billion in borrowings outstanding at any time, and contains other provisions similar to those in the note for the nonemergency programs (see page 60).

Table 13Special Assistance Functions Fund--Emergency Program
Authority to Borrow from Treasury

(000 omitted)

<u>Fiscal year</u>	<u>Statutory increase in authorized ceiling on outstanding purchases and commitments</u>	<u>Recorded borrowing authority</u>	<u>Gross borrowings</u>
1975	\$ 7,750,000 (7,750,000)*	\$ 7,750,000 b/ (7,750,000)**	\$ 504,680 (504,680)**
1976	5,000,000 (12,750,000)	5,000,000 (12,750,000)	2,474,150 (2,978,830)
TQ	- (12,750,000)	- (12,750,000)	401,484 (3,380,314)
1977	- (12,750,000)	- (12,750,000)	219,470 (3,599,784)
1978	- (12,750,000)	- (12,750,000)	723,910 (4,323,694)
1979	- (12,750,000)	- (12,750,000) d/	589,040 (4,912,734)
	(1)	(2)	(3)

*Ceilings in parentheses.

**Cumulative in parentheses.

a/Those amounts are treated as "repayments which restore borrowing authority" in the Department of the Treasury's Combined Statement of Receipts, Expenditures and Balances of the United States Government, fiscal years 1975 and 1976. This reflects the Executive position that, from a legal point of view, repayments do not have the effect of rolling over authority.

<u>Repayments of borrowings a/</u>	<u>Net borrowings (-) or repayments (+)</u>	<u>Gross borrowings in excess of recorded borrowing authority</u>
\$ - (-)**	\$ -504,680 (-504,680)**	\$ - (-)**
1,416,380 (1,416,380)	-1,057,770 (-1,562,450)	- (-)
1,023,320 (2,439,700)	621,836 (-940,314)	401,484 (-) c/
443,770 (2,883,470)	224,300 (-716,314)	219,470 (-) c/
364,117 (3,247,587)	-359,793 (-1,076,107)	723,910 (-) c/
313,747 (3,561,334)	-275,293 (-1,351,400)	589,040 (-) c/
(4)	(5)	(6)

b/Entries reflect revised budget treatment adopted for the fiscal year 1978 budget.

c/Computed from cumulative amounts in columns (2) and (3).

d/Amount not adjusted downward in this table to reflect a permanent lapsing ("redemption of debt") of \$10.1 billion in year-end unused authority.

SUPPLEMENTAL MATERIAL FROM CASE STUDIES OF
PROGRAMS WITH GROSS-BASED BORROWINGS AUTHORITY

The OMB Examiner's Handbook, section 124, B (June 26, 1975) states the following:

"The authority to spend debt receipts [i.e., borrowed funds] may be * * * limited [by statute] to the borrowing of specified cumulative amounts (in which case amounts repaid may not be reborrowed); * * *."

Accordingly, in programs with statutory dollar limits on cumulative or aggregate borrowings, OMB's usual policy is to record borrowing authority amounts in the budget to match the statutory limits on cumulative borrowings, or increases therein, and treat the recorded amounts as expressions of the total (gross) borrowings that may be made. Under this procedure, each borrowing by an agency permanently uses up a portion of its borrowing authority, 1/ and repayments are counted as repayments that do not roll over, or restore, previously recorded borrowing authority to permit additional borrowings.

The principal budgetary result of this grossing, nonroll-over procedure is that borrowing authority recordings fully cover total (gross) borrowings. Borrowings do not exceed borrowing authority.

GAO case studies of gross-based borrowing authority

Our case studies of programs with statutory limits on their cumulative borrowings, and resultant recordings of gross-based borrowing authority, included the following: 2/

1/In budget records, "undrawn" or "unfinanced" borrowing authority is permanently reduced with each borrowing.

2/The other case study program with gross-based borrowing authority was HUD's emergency mortgage purchase assistance program, discussed in appendix III because of its anomalous budget treatment. The emergency program has an indefinite borrowing authorization, which would normally subject it to the netting, rollover procedure.

- The Department of Agriculture's (USDA) Rural Electrification "Loans" programs, borrowings from Treasury (budget account 12-3197): 1/
- St. Lawrence Seaway Development Corporation, borrowings from Treasury (budget account 69-4089);
- The Small Business Administration's (SBA) "Business Loan and Investment Fund," borrowings from non-Treasury sources (budget account 73-4154);
- The Department of Housing and Urban Affairs' (HUD) "Special Assistance Functions Fund," nonemergency program borrowings from non-Treasury sources (budget account 86-4205); and
- USDA's "Rural Housing Insurance Fund," borrowings from non-Treasury sources (budget account 12-4141).

Rural Electrification "Loans"--
borrowings from Treasury

OMB recorded borrowing authority for programs in the "Loans" account that expressed, essentially, authorized gross borrowings. The basic legislation limited the programs' borrowings to "* * * such amounts in the aggregate for each fiscal year * * * as the Congress may from time to time determine to be necessary * * *" (17 U.S.C. 903) [Emphasis added].

The specific amounts authorized were contained in annual Department of Agriculture appropriation acts, in the form of program level authorizations. The following is an example, from the Department of Agriculture--Related Agencies Appropriation Act, 1969:

"For loans in accordance with said Act, and carrying out the provisions of section 7 thereof, to be borrowed from the Secretary of the Treasury * * * and to remain available without fiscal year limitation * * *, as follows: rural electrification program, \$329,000,000, and rural telephone program, \$120,000,000."

The above authorized program level totaled \$449 million (\$329 plus \$120 million), and this amount was recorded in the budget as the borrowing authority amount for fiscal year 1969.

1/Became inactive and last appeared in the budget for fiscal year 1979.

As seen in table 14 (columns "1" and "2"), the same basic procedure was followed in the other years with some minor variations. 1/

The cumulative amounts in table 14 show that total recorded borrowing authority (column "2") was always somewhat greater than the level of gross borrowings (column "3"). By the end of fiscal year 1977, the total of borrowing authority recordings stood at about \$11 billion, 2/ while gross borrowings had reached about \$9 billion. Repayments on borrowings (column "4") were treated in executive branch records (USDA, OMB, and Treasury) as repayments that did not roll over, or restore, previously recorded authority.

Borrowings (from Treasury) were made as needed with 40-year notes. Each borrowing was for the sum stated in an accompanying note, and in some cases was made under a Treasury Department requirement (authorized by 17 U.S.C. 903) for semi-annual payments of interest.

St. Lawrence Seaway Development Corporation--
borrowings from Treasury

The borrowing authority recordings for the Government-owned St. Lawrence Seaway Development Corporation, under revised enabling legislation and budget treatment, now represent authorized gross borrowings.

The initial 1954 enabling legislation authorized the Corporation to have "outstanding at any one time" \$105 million in borrowings from Treasury (68 Stat 94-95). A borrowing authority recording of \$105 million existed then, representing an authorized level of net borrowings. 3/

1/The recordings for fiscal years 1967 and 1973 were less than the authorized program level because of a decision not to use a "reserve" part of the 1967 program authorization and, concerning 1973, a decision to cover part of the 1973 program authorization with unused 1972 borrowing authority.

2/Total not adjusted downward in the table to reflect certain transfers out of the account totaling \$1.3 million. See footnotes b/ and c/ in table 14.

3/See the appendix II (p. 49) discussion of the netting procedure used under such statutory authorizations.

Amendments of 1957 changed the borrowing provision to place a statutory limit on cumulative, rather than outstanding, borrowings. The amended section read as follows (33 U.S.C. 985 (a)):

"To finance its activities, the Corporation may issue revenue bonds payable from corporate revenue to the Secretary of the Treasury. The total face value of all bonds so issued shall not be greater than \$140,000,000 * * *."

The original draft of the 1957 amendments would simply have raised the limit on outstanding borrowings from \$105 to \$140 million. The decision to make the \$140 million amount a limit on gross borrowings was explained as follows by one Congressman in floor debate:

"We changed from the original draft because * * * when the bill read 'such bonds that are outstanding at any one time may not be greater than \$140 million' they might pay off a few bonds, and then issue some more bonds. So we have set the total up to \$140 million * * *. I believe we have some protection in this bill, because we have put in a ceiling of \$140 million. Before they exceed that amount of bonds they must come back and ask for authority again."

With enactment of the \$140 limit on total borrowings, OMB recorded another \$35 million in borrowing authority. The \$105 million initial recording plus the \$35 million recording brought total recorded borrowing authority to \$140 million, representing the authorized ceiling on gross borrowings. As seen in table 15, gross borrowings of about \$134 million have been made under the \$140 million in authority. Repayments have been treated as repayments that do not roll over authority.

The Corporation borrows revenue bonds from Treasury which carry maturity date agreed upon with the Secretary of the Treasury, but which, by statutory limitation, cannot exceed 50 years. By legislative change (Public Law 91-469), borrowings since October 20, 1970, have been interest free.

Participation sales borrowings--borrowings
from non-Treasury sources

For programs in three case study accounts, in fiscal years 1967 and 1968 there were borrowing authority recordings expressing gross borrowings authorized to be made through fiscal years 1967-69 sales to non-Treasury sources of

Table 14
Rural Electrification Administration Loans
Authority to Borrow from Treasury

(000 omitted)

Fiscal Year	Total loan authorization	Recorded borrowing authority	Gross borrowings	Repayments of borrowings which do not rollover authority	Net borrowings (-) or repayments (+)	Gross borrowings in excess of recorded borrowing authority
Prior to 1967	\$ 7,957,610 (7,957,610)*	\$ 7,058,915 (7,058,915)*	\$ 5,868,386 (5,868,386)*	\$ 1,634,612 (1,634,612)*	\$ -4,233,774 (-4,233,774)*	\$ - (-)*
1967	492,000 (8,449,610)	462,000 (7,520,915)	472,000 (6,340,386)	187,687 (1,822,299)	-284,313 (-4,518,087)	10,000 (-) a/
1968	434,600 (8,884,210)	434,600 (7,955,515)	465,000 (6,805,386)	212,839 (2,055,138)	-252,161 (-4,770,248)	30,400 (-) a/
1969	449,000 (9,333,210)	449,000 (8,404,515)	453,530 (7,258,916)	75,743 (7,043,881)	-274,787 (7,045,035)	4,530 (-) a/
1970	463,300 (9,796,510)	463,300 (8,867,815)	462,000 (7,720,916)	220 (7,720,916)	283,080 (7,437,836)	- (-) a/
1971	465,800 (10,262,310)	465,800 (9,333,615)	600,000 (8,320,916)	45,532 (2,75,332)	7,468 (2,678,368)	134,200 (-) a/

1972	669,100 (10,931,410)	669,100 (10,002,715)	506,000 (8,920,530)	195,045 (2,770,378)	-304,955 (-6,050,538)	(-) a/
1973	740,000 (11,671,410)	633,000 b/ (10,635,715)	512,700 (9,333,216)	595 (2,770,973)	-5 (-6,562,543)	(-) a/
1974	(11,671,410)	(10,635,715)	595 (9,334,211)	(2,770,973)	-595 (-6,563,238)	(-) a/
1975	(11,671,410)	(10,635,715)	(9,334,211)	(2,770,973)	(-6,563,238)	(-) a/
1976	(11,671,410)	(10,635,715)	(9,334,211)	(2,770,973)	(-6,563,238)	(-) a/
TQ	(11,671,410)	(10,635,715)	(9,334,211)	(2,770,973)	(-6,563,238)	(-) a/
1977	(11,671,410)	(10,635,715) c/	(9,334,211)	(2,770,973)	(-6,563,238)	(-) a/
1978	(11,671,410)	(10,635,715)	(9,334,211)	(2,770,973)	(-6,563,238)	(-) a/
	(1)	(2)	(3)	(4)	(5)	(6)

*Cumulative in parentheses.

a/Calculated from cumulative totals in columns (2) and (3).

b/Recorded amount in the budget not adjusted downward in this table to reflect a \$882.1 million transfer of obligated authority.

c/Not adjusted downward in this table to reflect a \$455.6 million transfer of unobligated authority to USDA's Rural Electrification and Telephone Revolving fund.

Table 15
St. Lawrence Seaway Development Corporation
Authority to Borrow from Treasury

(000 omitted)

Fiscal year	Authorized total borrowings	Recorded borrowing authority	Gross borrowings	Repayments of borrowings which do not rollover authority	Net borrowings (-) or repayments (+)	Gross borrowings in excess of recorded borrowing authority
1954 to 1967	\$ 140,000 (140,000)*	\$ 140,000 (140,000)**	\$ 125,100 (125,100)**	\$ 324 (324)**	\$ -124,776 (-124,776)**	\$ - (-)**
1967	(140,000)	(140,000)	300 (125,400)	- (324)	-300 (-125,076)	300 (-) a/
1968	(140,000)	(140,000)	4,000 (129,400)	- (324)	-4,000 (-129,076)	4,000 (-) a/
1969	(140,000)	(140,000)	4,400 (133,800)	- (324)	-4,400 (-133,476)	4,400 (-) a/
1970	(140,000)	(140,000)	- (133,800)	- (324)	- (-133,476)	- (-) a/
1971	(140,000)	(140,000)	- (133,800)	3,300 (3,624)	3,300 (-130,176)	- (-) a/
1972	(140,000)	(140,000)	- (133,800)	3,400 (7,024)	3,400 (-126,776)	- (-) a/

1973	(140,000)	(140,000)	(133,800)	3,500 (10,524)	3,500 (-123,276)	(-) a/
1974	(140,000)	(140,000)	(133,800)	2,200 (12,724)	2,200 (-121,076)	(-) a/
1975	(140,000)	(140,000)	(133,800)	1,200 (13,924)	1,200 (-119,876)	(-) a/
1976	(140,000)	(140,000)	(133,800)	1,400 (15,324)	1,400 (-118,476)	(-) a/
TQ	(140,000)	(140,000)	(133,800)	(15,324)	(-118,476)	(-) a/
1977	(140,000)	(140,000)	(133,800)	2,000 (17,324)	2,000 (-116,476)	(-) a/
1978	(140,000)	(140,000)	(133,800)	1,000 (18,324)	1,000 (-115,476)	(-) a/
1979	(140,000)	(140,000)	(133,800)	2,500 (20,824)	2,500 (-112,976)	(-) a/
	(1)	(2)	(3)	(4)	(5)	(6)

*Ceiling in parentheses.

**Cumulative in parentheses.

a/Calculated from cumulative totals in columns (2) and (3).

"participations" in the assets of the programs. The programs were those in the following accounts:

- SSA's Business Loan and Investment Fund;
- HUD's Special Assistance Functions Fund, nonemergency program; and
- USDA's Rural Housing Insurance Fund.

In the 1967-69 participation sales, 1/ agency officials borrowed by selling to private investors debt instruments termed "participation certificates." The certificates were sold in varying denominations, and each one specified the applicable interest rate and repayment terms. The borrowing agency granted the lender a "participation" in the assets of the agency, which entailed an agency pledge to dedicate a block of its loan portfolio assets as backing for repayment of the borrowing.

The 1967-69 participation sales were authorized by the Participation Sales Act of 1966 (Public Law 89-429) and subsequent appropriation acts. The 1966 act (sec. 2(b)) contained the stipulation that

"Beneficial interests or participations shall not be issued * * * in an aggregate principal amount greater than is authorized * * * in an Appropriation Act. Any such authorization shall remain available only for the fiscal year for which it was granted and for the succeeding fiscal year." [Emphasis added]

The following language from the Department of Housing and Urban Development Appropriation Act, 1968 (Public Law 91-121) is an example of an implementing appropriation provision--in this case, concerning HUD's Special Assistance Functions Fund:

"The Federal National Mortgage Association, as trustee, is hereby authorized to issue beneficial interests or participations * * * in not to exceed the following principal amounts: * * * FNMA special assistance functions, \$250,000,000; * * * Provided, that the foregoing authorizations shall remain available until [the end of fiscal year 1969]."

1/Only the SBA account involved sales in 1969; the sales of the HUD and USDA accounts occurred in fiscal years 1967-68.

The entries in tables 16, 17, and 18, show the 1967 and 1968 recordings of borrowing authority for the 1967-69 participation sales borrowings in the three case study accounts. The yearly recordings (column "2" amounts) matched the yearly authorized aggregate amounts of participation sales borrowings (column "1" amounts), and in all three cases, gross borrowings (i.e., participation sales) did not exceed total recorded authority. The agencies' repayments on their participation certificates were treated in executive branch records as repayments that did not roll over recorded borrowing authority.

Administrators of the USDA case study account have been making similar certificate sales in recent years without recording borrowing authority for the transactions. Beginning with the Department of Agriculture and Related Agencies Appropriations Act, 1974, and continued through subsequent legislation, the Secretary of Agriculture has been authorized to raise funds for the programs in this account by selling "certificates of beneficial ownership" ("CBOs") similar to the earlier participation certificates, and to treat such sales for budget purposes "sales of assets" rather than borrowings, thus requiring no borrowing authority recordings.

The relevant provision from the 1974 appropriation act reads as follows:

"Provided, that the Secretary may * * * sell any notes in the fund [Rural Housing Insurance Fund] or sell certificates of beneficial ownership therein * * *. Any sale by the Secretary of notes or of beneficial ownership therein shall be treated as a sale of assets for purposes of the Budget and Accounting Act, 1921, notwithstanding the fact that the Secretary * * * hold the debt instruments evidencing the loans and holds or re-invests payments thereon for the purchaser or purchasers of the notes or of the certificates of ownership therein * * *." [Emphasis added]

Rural Housing Insurance Fund's CBO sales in the fiscal year 1975-79 period have all been to the off-budget Federal Financing Bank (FFB), and have totaled about \$15 billion. 1/

1/GAO has discussed before how the off-budget status of the FFB results in distorted budget totals. See "Government Agency Transactions with the Federal Financing Bank Should be Included on the Budget," U.S. General Accounting Office, PAD-77-70, Aug. 3, 1977.

Table 16
Business Loan and Investment Fund
Authority to Borrow from Non-Treasury Sources--Participation Sales

(000 omitted)

Fiscal Year	Authorization for participation sales borrowings	Recorded borrowing authority	Gross borrowings	Repayments of borrowings which do not rollover authority	Net borrowings (-) or repayments (+)	Gross borrowings in excess of recorded borrowing authority
1967	\$ 722,103 a/ (722,103)*	\$ 722,103 (722,103)*	\$ 392,103 (392,103)*	\$ - (-)*	\$ -392,103 (-392,103)*	\$ - (-)*
1968	150,000 (872,103)	150,000 (872,103)	375,000 (767,103)	- (-)	-375,000 (-767,103)	225,000 b/ (-) c/
1969	- (872,103)	- (872,103)	50,000 (817,103)	104,040 (104,040)	54,040 (-713,063)	50,000 b/ (-) c/
1970	- (872,103)	- (872,103)	- (817,103)	144,201 (248,241)	144,201 (-568,862)	- (-) c/
1971	- (872,103)	- (872,103)	- (817,103)	20,532 (268,773)	20,532 (-548,330)	- (-) c/
1972	- (872,103)	- (872,103)	- (817,103)	165,310 (434,083)	165,310 (-383,020)	- (-) c/
1973	- (872,103)	- (872,103)	- (817,103)	28,438 (462,521)	28,438 (-354,582)	- (-) c/

1974	(872,103)	(872,103)	(817,103)	(462,521)	(-354,582)	(-) c/
1975	(872,103)	(872,103)	(817,103)	(462,521)	(-354,582)	(-) c/
1976	(872,103)	(872,103)	(817,103)	(462,521)	(-354,582)	(-) c/
T0	(872,103)	(872,103)	(817,103)	(462,521)	(-354,582)	(-) c/
1977	(872,103)	(872,103)	(817,103)	72,053 (534,574)	72,053 (-282,529)	(-) c/
1978	(872,103)	(872,103)	(817,103)	31,451 (566,025)	31,451 (-251,078)	(-) c/
1979	(872,103)	(872,103)	(817,103)	(566,025)	(-251,078)	(-) c/
	(1)	(2)	(3)	(4)	(5)	(6)

*Cumulative in parentheses.

a/The fund portion of the \$850 million total authorized for SBA.

b/The borrowing exceeds only the borrowing authority recorded for the year, not the cumulative borrowing authority. Also available was the borrowing authority from the preceding fiscal year (available for 2 fiscal years).

c/Calculated from the cumulative amounts in columns (2) and (3).

Table 17
Special Assistance Functions Fund--Participation Sales
Authority to Borrow from Non-Treasury Sources--Participation Sales

Fiscal Year	Authorization for participation sales borrowings	Recorded borrowing authority	Gross borrowing a/	Repayments of borrowings which do not rollover authority b/		Net borrowings (-) or repayments (+)	Gross borrowings in excess of recorded borrowing authority
				\$ (-)*	\$ (-)*		
Prior to 1967	\$ (-)*	\$ (-)*	\$ (-)*	\$ (-)*	\$ (-)*	\$ (-)*	\$ (-)*
1967	300,000 (300,000)	300,000 (300,000)	300,000 (300,000)	- (-)	-300,000 (-300,000)	- (-)	- (-)
1968	250,000 (550,000)	250,000 (550,000)	250,000 (550,000)	40,805 (40,805)	-209,195 (-509,195)	- (-)	- (-)
1969	- (550,000)	- (550,000)	- (550,000)	46,452 (87,257)	46,452 (-462,743)	- (-)	- (-)
1970	- (550,000)	- (550,000)	- (550,000)	62,834 (150,091)	62,834 (-399,909)	- (-)	- (-)
1971	- (550,000)	- (550,000)	- (550,000)	44,838 (194,929)	44,838 (-355,071)	- (-)	- (-)
1972	- (550,000)	- (550,000)	- (550,000)	78,782 (273,711)	78,782 (-276,289)	- (-)	- (-)
1973	- (550,000)	- (550,000)	- (550,000)	54,409 (326,120)	54,409 (-221,880)	- (-)	- (-)

(000 omitted)

1974	(550,000)	(550,000)	(550,000)	52,371 (380,491)	52,371 (-169,509)	- (-)
1975	(550,000)	(550,000)	(550,000)	57,093 (437,584)	57,093 (-112,416)	- (-)
1976	(550,000)	(550,000)	(550,000)	25,861 (463,445)	25,861 (-86,555)	- (-)
TQ	(550,000)	(550,000)	(550,000)	(463,445)	(-86,555)	(-)
1977	(550,000)	(550,000)	(550,000)	89,956 (553,401) <u>b/</u>	89,956 (<u>c/</u>)	- (-)
1978	(550,000)	(550,000)	(550,000)	82,447 (635,848) <u>b/</u>	82,447 (<u>c/</u>)	- (-)
1979	(550,000)	(550,000)	(550,000)	(635,848) <u>b/</u>	(<u>c/</u>)	(-)
	(1)	(2)	(3)	(4)	(5)	(6)

*Cumulative in parentheses.

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a/Amounts are exclusive of the participation sales of fiscal years 1965 (\$200 million) and 1966 (\$475 million). In these years, participation sales were treated as sales of assets rather than borrowings.

b/Cumulative repayments exceed cumulative borrowings [col. 3] because the repayment amounts shown include repayments on the \$675 million in pre-1967 participation sales. See preceding footnote a/.

c/No entry made because an entry reflecting columns (3) and (4) amounts would be negative not reflecting the true outstanding cumulative amount for the \$550 million in participation sales borrowings. See preceding footnotes a/ and b/.

Table 18
Rural Housing Insurance Fund
Authority to Borrow from Non-Treasury Sources--Participation Sales
 (000 omitted)

Fiscal Year	Authorization for participation sales borrowings	Recorded borrowing authority	Actual borrowings	Repayments of borrowings which do not rollover authority	Net borrowings (-) or repayments (+)	Gross borrowings in excess of recorded borrowing authority
1967	\$ 112,000 a/ (112,000)*	\$ 112,000 (112,000)*	\$ 112,000 (112,000)*	\$ - (-)	\$ -112,000 (-112,000)*	\$ - (-)
1968	150,000 b/ (262,000)	150,000 (262,000)	150,000 (262,000)	- (-)	-150,000 (-262,000)	- (-)
1969	- (262,000)	- (262,000)	- (262,000)	23,915 (23,915)	23,915 (-238,085)	- (-)
1970	- (262,000)	- (262,000)	- (262,000)	56,673 (80,588)	56,673 (-181,412)	- (-)
1971	- (262,000)	- (262,000)	- (262,000)	-13,000 c/ (67,588)	-13,000 (-194,412)	- (-)
1972	- (262,000)	- (262,000)	- (262,000)	29,761 (97,349)	29,761 (-164,651)	- (-)

1973	(262,000)	(262,000)	(262,000)	7,453 (104,802)	7,453 (-157,198)	(-)
1974	(262,000)	(262,000)	(262,000)	-	(-157,198)	(-)
1975	(262,000)	(262,000)	(262,000)	(104,802)	(-157,198)	(-)
1976	(262,000)	(262,000)	(262,000)	(104,802)	(-157,198)	(-)
TQ	(262,000)	(262,000)	(262,000)	(104,802)	(-157,198)	(-)
1977	(262,000)	(262,000)	(262,000)	18,124 (122,926)	18,124 (-139,074)	(-)
1978	(262,000)	(262,000)	(262,000)	34,945 (157,871)	34,945 (-104,129)	(-)
1979	(262,000)	(262,000)	(262,000)	(157,871)	(-104,129)	(-)
	(1)	(2)	(3)	(4)	(5)	(6)

*Cumulative in parentheses.

a/USDA's Rural Housing Direct Loan account portion of the \$600 million authorization provided to USDA's farmers Home Administration (FmHA) Offices Appropriation Act, 1967. Account merged in 1971 with the Rural Housing Insurance Fund (RHIF).

b/The Rural Housing Direct Loan account portion of the \$750 million authorization provided FmHA in the Department of Agriculture and Related Agencies Appropriation Act, 1968. Account merged in 1971 with RHIF.

c/Represents repayments by RHIF . . \$10.2 million and adjustment.

Administrators of USDA's Rural Electrification and Telephone Revolving Fund (a case study account discussed in appendix II) also sell CBOs to the FFB--about \$586 million in funds were raised by such CBO sales in fiscal year 1979 alone.

The 1967 President's Commission on Budget Concepts concluded that agency sales of participations in agency assets should be treated as borrowings rather than sales of assets, and GAO has concurred with this position on previous occasions. 1/

1/See, for example, "Government Agency Transaction with the Federal Financing Bank Should be Included on the Budget," U.S. General Accounting Office, PAD-77-70, Aug. 3, 1977, p. 25, and "Legislative Change Needed to Improve Budget Treatment of Certificates of Beneficial Ownership," U.S. General Accounting Office, PAD-80-32, April 2, 1980.

AGENCIES THAT PROVIDED WRITTEN RESPONSES

We asked the case study agencies and the Department of the Treasury to review the report's dollar amounts and descriptions, and provide oral or written comments on any inaccuracies. Also, we asked the Office of Management and Budget to provide written comments on the report.

Comments were received from all of the agencies. As a result of the oral comments received, we made some minor changes in the dollar amounts and descriptions. These changes did not affect the conclusions or recommendations of the report.

The agencies providing written comments are the following:

- the Office of Management and Budget;
- the Department of the Treasury; and
- the Rural Electrification Administration of the Department of Agriculture.

The written comments, and our responses, are contained in appendixes VI, VII, and VIII.



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

DEC 14 1979

Mr. Harry S. Havens
Director, Program Analysis Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Harry:

This responds to your request for comment on GAO's draft report, "Current Practices for Recording Budget Authority in Certain Revolving Fund Programs Impair Congressional Budget Control." Since arrival of the draft report coincides with our annual budget preparation effort, we have not been able to conduct as comprehensive a review as we might desire. However, our review did reveal significant technical problems with the report's coverage of the netting, grossing, and roll-over concepts, which we believe need to be corrected. The conclusions and recommendations are affected by these technical aspects. But because their scope goes beyond the practices of netting and rollover, they can be considered apart from the other material presented in the report. Our comments address first the conclusions and recommendations of the report and then some of the technical problems.

GAO Conclusions and Recommendations

The report asserts that the practice of netting and rollover of borrowing authority in certain revolving fund loan programs hamper Congressional control and the ability to set priorities by understating obligational authority based on borrowing authority and interjecting an element of inconsistency. It concludes that there is a need for budget authority recordings for revolving fund loan programs that more completely reflect total obligational authority. Two recommendations are made to remedy the perceived inadequacy of disclosure and control by the Congress of revolving fund activity:

- that the Director of the Office of Management and Budget revise the way the definition of budget authority is applied with respect to revolving fund loan programs so that budget authority for these programs is the amount of gross obligations, or gross loan obligations, authorized to be made.

- that the Congress, in reviewing revolving fund loan programs, place specific limits on the gross obligations or gross loan obligations authorized to be made, and require that such limits be treated as the relevant budget authority amounts.

For a number of reasons, we cannot agree with your first recommendation. First, we do not agree that our current practices of calculating borrowing authority are causing problems for the Congress, and the report fails to cite any specific difficulties that have been noted by the Congress. We consult the Budget and Appropriations Committees on our treatment of budget authority, and only rarely have they expressed dissatisfaction with our practices.

[GAO RESPONSE: The report cites several reasons why congressional budgetary control is lessened when budget authority recordings for revolving fund loan programs express authorized net borrowings. First, because net-based recordings of borrowing authority do not disclose the full amount of obligational authority made available through authorized borrowings, congressional attempts to control obligational authority by acting on net-based borrowing authority will control incompletely actual obligational authority levels, and result in budget totals that provide a distorted picture of the obligational authority provided through borrowing authority (see p. 22).

Second, the use of net-based borrowing authority amounts along with gross-based amounts interjects an element of inconsistency into budget amounts, and complicates the Congress' task of comparing programs and annually setting budget priorities. It is difficult for the Congress to set priorities among programs and achieve the intended results if programs' funding levels are computed under different rules (see p. 24).

Finally, the report notes that net-based borrowing authority often entails "backdoor spending", i.e., expenditures from budget authority not provided in appropriation acts. We concur with the 1974 Congressional Budget Act's objective of restricting backdoor spending, and reiterate our position that the public interest is best served when congressional control over Federal activities is exercised through periodic reviews and positive action in the appropriations process. Ideally, budget authority should be provided through appropriations actions (see p. 27).]

Second, it is not necessary for the budget schedules to treat total obligational authority as budget authority for the Congress to make decisions on budget totals or priority allocations. We agree that the Congress needs full and accurate information on obligational authority, and we believe that the Congress receives full and accurate information now. The report does not demonstrate inadequate disclosure of appropriate measures of levels of activity. It fails to recognize that information in the budget appendix schedules for each fund presents clearly the total magnitude of obligational authority and obligations actually incurred and permits full evaluation of each fund's activities.

[GAO RESPONSE: We restate the report's position that congressional budgetary control over revolving fund loan programs would be enhanced if the programs' recorded budget authority amounts expressed total obligational authority (for gross obligations or gross loan obligations). The Congress' annual budget resolutions set targets or controls on budget authority amounts, and such congressional budget actions would have more consistency and relation to actual authorized obligations if the affected budget authority amounts express total obligational authority rather than authorized net borrowings (see p. 30).]

Third, Congressional control is not necessarily restricted to actions on budget authority. The Congress has demonstrated many times that it has the ability to control revolving fund programs to whatever degree it wishes to control them. It enacts program and obligation limitations on individual programs and funds for which there is no budget authority, per se. Moreover, by authorizing permanent, indefinite borrowing authority or revolving debt authority for certain programs, the Congress has demonstrated its desire to provide those programs with maximum flexibility and minimum control.

[GAO RESPONSE: Our report notes that in several case study netting programs, the Congress has chosen to periodically set loan program obligation limitations (see p. 32). We believe that this clearly demonstrates that the Congress has perceived the inadequacy of existing net-based borrowing authority recordings as budget mechanisms for controlling the programs. We think that it would be logical and fully consistent with these and similar congressional limitations to treat them as budget authority amounts. In the light of such congressional limitations, we do not agree with the OMB implication that the Congress continues to demonstrate " * * * its desire to provide those programs with maximum flexibility and minimum control."]

Fourth, the scope of the recommendation is restricted to loan programs in revolving funds and would therefore appear to apply different presentation rules to non-loan revolving funds. Loans are only one form of activity for which budgetary resources are used. There is no sound reason why budgetary resources applied to finance obligations for loans should be defined as a new kind of budget authority. More importantly, OMB continues to oppose elimination of the offsetting aspect of revolving funds. Our views on this subject were provided in response to the GAO report, "Revolving Funds: Full Disclosure Needed For Better Congressional Control," dated August 30, 1977.

The Congress, in authorizing certain programs to be funded as a revolving fund rather than through direct appropriations, has expressed a desire to provide flexibility for those programs. Revolving funds facilitate continuous financing that is not disrupted at the end of a given period and permit operations to be planned on a continuing basis. As GAO has recognized previously, the establishment of a revolving fund by the Congress is, in effect, a permanent authorization for a program to be financed in whole or in part through the use of its collections. The Report of the President's Commission on Budget Concepts, October 1967, addressed some of the matters raised in your report and concluded that receipts associated with activities that operate as business-type enterprises or that are market oriented in character should be treated as offsets to the expenditures to which they relate.

[GAO RESPONSE: We restricted our recommendations to revolving fund loan programs because that kind of program was the principal kind covered in our case study work. We agree that there are other kinds of revolving fund programs with similar budgetary concepts and procedures, and we would have no objection to an application as appropriate of our recommendations to those programs. Our report envisages the application of our recommendations to HUD's Special Assistance Function Fund nonloan programs (see p. 35).

We reiterate our earlier report's opposition to the offsetting practice, and note that the recommendations in this current report are fully consistent with the earlier report's recommendations. The use of offsetting receipts from the public and net-based borrowing authority are parts of a general netting approach for revolving funds that understates budgetary levels.

As far as congressional intent to provide flexibility to revolving fund programs is concerned, two points should be considered. First, as noted previously, the Congress has from time to time chosen to restrict somewhat the flexibility of revolving fund programs by periodically setting program obligations limitations; and, as other OMB comments point out (see p. 92), the President himself has proposed in the budget for fiscal year 1981 limitation language for accounts with direct loan and loan guarantee activity. Second, should the Congress decide not to place specific obligations limitations on given revolving fund programs, budgetary procedures for those programs would still be improved by OMB implementation of the first recommendation. It would be an improvement in such cases to make recordings of budget authority represent authorized gross obligations or gross loan obligations regardless of whether the Congress chooses to periodically set limits on such obligations for individual accounts and programs. In these cases, the authorized levels would be those set by the executive branch under existing permanent authorizations.]

Fifth, the budget authority concept is critical to the Presidential and Congressional budget processes. While budget concepts need to be reevaluated from time to time to improve their usefulness, we do not agree that the circumstances described in the report warrant a redefinition of budget authority such as you have proposed. The proposed change could have a significant effect on scorekeeping (by both the Congress and the Executive Branch) and on accounting and budgetary systems. These effects would have to be assessed thoroughly before such a change could be considered seriously. It does not appear to us that your report evidences that kind of assessment.

[GAO RESPONSE: We do not think that the changes needed would be unduly disruptive or costly and therefore, we do not believe such further study is needed. If OMB wants to make some studies anyway, we believe they could be done under the program-by-program approach we proposed as an option (see p. 35). We state in the report that we are prepared to work cooperatively with the Congress and the executive branch on the technical aspects of implementing the recommendations (see p. 36), and would support an approach that minimizes any inconvenience and cost associated with the change.]

Notwithstanding our objections to the radical change the report proposes, we believe that a change in the treatment of borrowing authority, with statutory limits on outstanding borrowings (i.e., revolving debt authority), may be warranted. Currently, where this type of authority is authorized, it is restored and added to the fund's corpus (i.e., "rolled over") to the extent that actual borrowings are repaid. While this treatment of revolving debt is consistent with Congressional intent, we share your concern that this authority becomes available without being counted as new budget authority. Recognizing this problem, OMB policy, with respect to new legislation, is to recommend, generally, that authorizations for borrowing authority stipulate a limit expressed as a statutory authorization of aggregate borrowing of a specific amount limited to amounts contained in appropriation acts. We would be willing to explore, along with GAO, Congressional staff, and Treasury, the possibility of treating existing revolving debt authority as a new type of permanent, indefinite borrowing authority with a limitation. Under this approach, the amount restored in any year as a result of debt repayments would be identified as new budget authority in that year. The amounts thus shown would be limited to only that amount needed to cover necessary new obligations.

[GAO RESPONSE: We are glad that OMB shares our concern about the netting procedure in programs operated under statutory limits on the borrowings that may be outstanding at any one time, and favors, it seems, essentially a gross-based recording of borrowing authority for such programs (debt repayments would not roll over borrowing authority). We state in this report that conversion to gross-based borrowing authority would be a step in the right direction (see p. 30), and we therefore would be willing to explore with OMB and other officials the aspects of such a change in these cases.

We also think, however, that such a change would be only a partial solution to the problem of more fully expressing, in budget authority recordings, the obligational authority in these programs. Under the change, budget authority recordings could still understate the obligational resources of the program (borrowings, collections, etc.). Furthermore, we do not agree that the change should be confined to programs with statutory limits on outstanding borrowings. To make this change would be confusing, while continuing to use net-based recordings in programs with indefinite borrowing authorizations.]

Your second recommendation would have Congress place limits on obligations of revolving fund loan programs and treat the limits as budget authority. We fully support the first part of that recommendation. As you know, as part of the Administration's new credit control system, the President will propose, in the 1981 Budget, limitation language for accounts with direct loan and loan guarantee activity for the budget year. Plans for this credit control system were announced in the 1980 Budget. OMB Circular No. A-11 requires agencies to submit materials for this purpose. With the cooperation of the Congress, there will be full control over these credit programs to the extent that the law permits. We were surprised that the report made no mention of our effort to control loan and loan guarantee programs or the interest of the Budget Committees and the Appropriations Committees in controlling these programs through limitations on gross lending activities. For the same reasons listed above, we disagree with the second part of your recommendation and do not believe it is necessary or desirable to treat such limits as budget authority.

[GAO RESPONSE: We are glad that OMB agrees on the need for congressional limits on loan programs. In this final report, we briefly discuss the President's credit control proposals put forth in the 1981 budget (see p. 32).]

Netting, Grossing, and rollover

In certain situations, borrowing authority recorded in the budget does not express the full amount of obligational authority available through borrowing, i.e., total funds which may be borrowed. The report asserts that this occurs because of two distinct budget practices--netting and rollover; in fact, discussion of these practices is a primary focus of the report. The report's description of netting and its effect on recording budget authority is somewhat misleading, and the netting procedure described in the report is not consistent with OMB policy on netting.

In many instances, the report treats netting and rollover synonymously and fails to recognize their differing implications for budget presentation and Congressional control. Most of the disparity between borrowing authority recorded in the budget and gross borrowings from the Treasury is wrongly attributed to the netting procedure. We acknowledge that there are instances in which gross borrowing exceeds total recorded budget authority but believe that, in most cases, the disparity is the result of rollover and, as you indicate, consistent with Congressional intent.

[GAO RESPONSE: The netting procedures described in the report are the ones that have been followed by agencies, and that (with the exceptions clearly noted--see pp. 11-12) have been consistent with OMB policy on netting. The disagreement OMB has with our technical description of netting apparently stems from an OMB misunderstanding of the report's technical sections. This is discussed below.

The report addresses a basic netting procedure which may or may not entail rollover, depending upon the year and the program, and makes clear that under the basic netting procedure borrowings over time can exceed recorded borrowing authority whether or not rollover is a part of the procedure (see pp. 9-10). We note that in Agriculture's Rural Electrification and Telephone Revolving Fund, a case study account using the basic netting procedure without rollover, the margin by which recorded borrowing authority exceeds gross borrowings decreased from \$1.4 billion at the end of fiscal year 1978 to \$1.0 billion at the end of fiscal year 1979. As the report states, it is just a matter of time under current procedures and trends before gross borrowings exceed recorded borrowing authority (see p. 12-13).]

The report states that for certain revolving fund loan programs, total borrowings have exceeded recorded borrowing authority because the budget authority (borrowing authority) recorded in the budget represents authorized net borrowings rather than authorized gross borrowings. According to the report, normal budgetary practice is to have "borrowing authority recordings essentially represent levels of authorized net borrowings--i.e., borrowings less repayments" for programs with indefinite authorizations or dollar limitations on outstanding borrowings. In short, the report defines net borrowing authority as the difference between gross borrowing and repayments. The report further states that for programs with indefinite borrowing authority, the amount recorded as new borrowing authority represents the increase in the amount of authorized outstanding borrowings from the beginning to the end of the year. These statements are incorrect.

Borrowing authority is not based on the difference between gross borrowing and repayments in a year. Actual borrowing is not a budget measure and does not figure into the calculation of budget authority (borrowing authority). Borrowing authority, as GAO's glossary of terms used in the budgetary process states, is the authority to incur obligations that ultimately will be liquidated by agency borrowing. In the case of programs with permanent, indefinite borrowing

authority, the amount of budget authority recorded represents the amount of such new authority needed to cover obligations after application of other resources, i.e., current revenues and carryover unobligated balances.

The netting policy recognized by OMB applies equally to programs with definite, nonrevolving borrowing authority; borrowing authority with a statutory limit on outstanding borrowings (e.g., revolving debt authority) and permanent, indefinite borrowing authority. To understand netting, two other basic OMB policies related to borrowing authority should be considered:

- (1) cash is borrowed only as needed for disbursement purposes; and
- (2) budget authority (borrowing authority) should be applied (used) only to the extent needed to finance obligations after other available budgetary resources have been applied.

Under OMB's netting policy, if borrowing occurs in the same year in which an obligation is incurred against borrowing authority and that borrowing is repaid in the same year, the obligation will be treated in the budget as though it were incurred against revenue and no application of borrowing authority will be reflected. For programs with definite, nonrevolving borrowing authority, this policy would not affect the amount of budget authority recorded, but clearly would affect the amount remaining available (as an unobligated balance of borrowing authority) at the end of the year.

This netting procedure is consistent with our view that it is not necessary to recognize short-term debt in the budget, i.e., borrowing and repayment of that borrowing in the same year that an obligation is incurred. This practice facilitates presentation in the budget appendix of a snapshot of the aggregate effect of transactions occurring over time. While the transactions reflected in the budget must be supportable from the accounting records, the program and financing schedule is not an accounting presentation and does not purport to show all the accounting transactions that occur in any year.

[GAO RESPONSE: The report does not say that net-based borrowing authority recordings merely express the difference between gross borrowings and repayments. It states that the recordings " * * * essentially represent levels of authorized net borrowings, i.e., borrowings less repayments" (see p. 4). In further technical elaboration, the report makes clear that a recording expressing "authorized net borrowings" represents

(1) authorized actual net borrowings in the year (borrowings less repayments) plus (2) authorized future net borrowings that may be required to cover year-end uncovered obligations (see pp. 8 and 10).

The report's description of the netting procedure

--is consistent with the net-based recordings of borrowing authority in the relevant case study programs;

--was reviewed and accepted as accurate by the relevant case study agencies; and

--is consistent with the OMB Examiners' Handbook description of the netting procedure (see p. 39 of this report).

OMB's technical disagreement with us derives from OMB's current preference for formulating the netting formula in somewhat different terms from those used in the Examiners' Handbook and the report. OMB's letter quoted above states that the authority recorded "* * * represents the amount of such new authority needed to cover obligations after application of other resources, i.e., current revenues and carry-over unobligated balances." This OMB formulation is not different in essence from the report's. The same borrowing authority recordings would be derived from each formulation.]

The report suggests that OMB officials have explained that netting is applied in recording borrowing authority because this authority relates to programs with market-type activities, financed through public enterprise revolving funds and is consistent with the policy of reporting net outlays for revolving funds. This is not the rationale for netting, and the example of reporting net outlays in revolving funds is not a valid comparison. Furthermore, the netting of outlays is not restricted to revolving fund activities; outlays are reported net of offsetting collections for all budget accounts.

[GAO RESPONSE: The draft version of the report included an explanation (of the netting procedure) provided by an OMB official during an interview at OMB. This explanation has been deleted from this final report.]

We believe that the misunderstanding of our netting policy may be attributable to information requirements of Treasury and the difference between Treasury's accounting treatment of borrowing transactions (as reflected in Part Four, Tables 2 and 3 of the Treasury Combined Statement) and OMB's concept of recording budget authority (borrowing authority). For example, for indefinite borrowing authority, Treasury, in Table No. 2 of the Treasury Combined Statement, records as borrowing authority amounts that are actually borrowed in one year. OMB records the authority needed to cover obligations. Treasury also treats repayments of permanent, indefinite borrowing as a restoration of borrowing authority. OMB does not. (This is discussed in more detail below.) Treasury calculates the net effect of borrowings and repayments that "restore" (rollover) borrowing authority to determine the change in unused authority. They also use the net effect of borrowings and repayments to determine outstanding borrowings.

[GAO RESPONSE: The GAO report describes a netting procedure set forth in OMB guidance and followed by agency budget offices. The netting concepts described are not based upon Treasury's concepts and procedures for reporting borrowings, etc.]

The draft report seems to indicate that agencies may not be applying netting properly. If this is true, we may need to articulate our policy more clearly or possibly change the policy and require that the use of borrowing authority be reflected on a gross basis. However, we are not prepared to make a specific recommendation at this time. The matter needs to be reviewed further, and we would want to ascertain the extent to which short-term borrowing and repayment actually occurs before recommending change.

As we have already stated, we believe that most of the examples you cite in the report as cases where actual borrowings exceed recorded borrowing authority result from the practice of restoring borrowing authority for programs with statutory limits on outstanding borrowings when repayments are made. OMB policy is to require quantification of budget authority when there is a reasonable proxy for such quantification. In the case of revolving debt authority, the full amount of budget authority is recorded in the first year. To the extent that borrowing is repaid, borrowing authority may be restored (or rolled over) and is available for subsequent cycles of borrowing. This restoration, or rollover, is reflected in the program and financing schedules as an increase in the unobligated balance of borrowing authority in an amount equal to the repayment. No new budget authority is recorded.

Repayments should not restore borrowing authority in programs with permanent, indefinite borrowing authority. Our policy requires that new budget authority be recorded only when permanent, indefinite borrowing authority is used. Several years ago, we became aware that some agencies were using repayments to restore borrowing authority for programs with permanent, indefinite authorizations and were carrying large balances of unobligated budget authority. As a result, OMB Circular No. A-11 was revised to clarify the policy.

Consistent with OMB Circular No. A-11, repayments of borrowing by programs with permanent, indefinite borrowing authority should be reflected as a reduction of an account's fund balances and should be balanced in the budget appendix schedules by a "redemption of debt" entry. (The redemption of debt entry is also used to withdraw erroneously recorded unobligated balances of borrowing authority and to withdraw balances of borrowing authority that do not revolve when other budgetary resources are substituted. The report's discussion of the "redemption of debt" (page 14) entry should be revised to reflect more accurately this usage.)

The report (pages 16 and 17) cites four programs with permanent, indefinite borrowing authority that have continued to rollover borrowing authority, despite OMB's policy against this practice. We have discussed your findings with the agencies involved, and the treatment of permanent, indefinite borrowing authority will be corrected in the 1981 Budget for the Eximbank, the Department of Housing and Urban Development's Special Assistance Functions Fund, and the Department of Defense's Homeowners Assistance Fund. In the case of the Rural Housing Insurance Fund (Department of Agriculture), there is no indication that repayments are used to rollover borrowing authority. To the extent that borrowings are repaid, no new borrowing authority is added to the unobligated balances of borrowing authority. Accordingly, the appendix schedule in the 1980 Budget for this account shows no unobligated balances of borrowing authority. It is our understanding that all borrowing authority for this account is reflected as new budget authority when required to incur obligations.

[GAO RESPONSE: We concur with OMB's statement that they may have to articulate their new, nonrollover policy more clearly. Our draft report identified four accounts where OMB's nonrollover policy was not being followed (see pp. 11-12), and the above OMB comments state that corrective actions would be taken in the fiscal year 1981 budget for three of the four accounts. OMB suggests that continued rollover has not occurred in the third account (Agriculture's Rural Housing Insurance Fund).

Our subsequent review of budget treatments in the 1981 budget shows that fully corrective actions have not been taken for two of the accounts. Although the Eximbank in fiscal year 1979 made about \$1.5 billion in repayments on prior year borrowings from non-Treasury sources, there was no 1981 budget matching redemption of debt entry for 1979 (although redemption is projected for 1981). Similarly, although officials of Agriculture's Rural Housing Insurance Fund made 1979 repayments of \$450 million on prior year Treasury borrowings, the 1981 budget showed no redemption of debt for 1979. We do not understand why OMB officials see no indication of continued rollover in this account. 1/

As for the OMB comment that the report should more accurately reflect usage of the "redemption of debt" entry, we note that the report fully quotes from the relevant OMB Circular A-11 provisions (see p. 9 footnote 2/.)

The report also contains a table (page 22) that identifies 17 accounts that represent possible future rollovers. To the extent that these accounts have permanent, indefinite borrowing authority, rollover should not occur. We would recommend revising the table to indicate which of the accounts have permanent, indefinite borrowing authority.

We trust that these comments will be helpful to you. We will be glad to work further with GAO staff in evaluating and considering proposals to make necessary improvements to the information presented in the budget.

[GAO RESPONSE: The report notes that future rollover would not occur in any of the 19 accounts entailing indefinite authorizations and actual implementation of OMB's nonrollover policy for such accounts (see p. 17). It was beyond the scope of the GAO review to identify which of the 19 accounts (besides the relevant case study accounts) have indefinite authorizations.]

Sincerely,



Dale R. McOmber
Assistant Director
for Budget Review

1/A possible explanation is that the repayments in question have been made on the first day of the fiscal year with borrowings made on the same day, which rolls forward old debt, with no new borrowing authority becoming available. Still, this is a form of rollover.



DEPARTMENT OF THE TREASURY

WASHINGTON D.C. 20220

FISCAL ASSISTANT SECRETARY

DEC 20 1979

Dear Mr. Scantlebury:

This is in regard to your letter of November 1, 1979, to Secretary Miller concerning GAO's draft report to Congress entitled "Current Practices in Recording Budget Authority in Certain Revolving Fund Programs in Fair Congressional Budget Control" (PAD-80-29).

We have reviewed the proposed draft which has resulted in the following clarifying comments which we believe you should be aware of:

- (1) Treasury is in agreement with the figures shown in the report with the following exceptions:
- (A) The following pages have figures that pertain to non-Treasury borrowings and can not be verified by Treasury:

Page 5, 18 (Export-Import Bank Non-Treasury borrowings), 25, 33, 43, 45, 60 (col. 6), 61, 62, 63, 65 1/2 (col. 1), 69 (col. 2 & 6), 73, 75 (col. 6), 81 (col. 1 & 6), 81 (col. 6), 92, 93, 94, and 96.

- (B) The information on page 75 (col. 2), and 85 (col. 1 & 2) can not be verified by Treasury with the information given in this report.

- (C) The following figures are incorrect:

Page 18 - The recorded borrowing authority for Export-Import Bank should be 6.0 not 5.7; HUD Special Assistant should be 5.6 not 7.9; Rural Electrification and Telephone Revolving should be 3.3 not 3.6; and Rural Housing Insurance Fund should be 2.0 not 3.0.

[GAO RESPONSE: The draft reviewed by Treasury contained figures as of the end of fiscal year 1978. In this final report (see p. 13) the amounts have been updated to reflect any congressional actions and OMB recordings for fiscal year 1979. The figures reviewed by Treasury were correct. They were taken from OMB budget documents--the focus of this review--rather than Treasury records, and reflect certain adjustments as detailed in the tables on pp. 45, 52, and 62 of this report.

The report contains a relevant discussion on p. 49 of the Eximbank's recordings. The amounts reviewed by Treasury had been reviewed without disapproval by the administering agencies.]

Page 22 - Commodity Credit Corporation cumulative repayments all years should be \$125,567,219 not \$125,557,221;

- Rural Electrification and Telephone Revolving Fund cumulative repayments all years should be \$569,575 not \$874,386;

- Total cumulative repayments all years should be \$234,582,294 not \$235,392,107;

[GAO RESPONSE: In this final report, we eliminated from the relevant table (see p. 16) the cumulative repayments of each account.]

- Rural Housing Insurance Fund Borrowings outstanding fiscal year 1978 end should be \$1,005,718 not \$1,005,715;

- Total Borrowings outstanding fiscal year 1978 end should be \$75,237,628 not \$75,237,625

[GAO RESPONSE: This final report's amounts for outstanding borrowings were corrected to reflect the above Treasury comment, and updated to incorporate transactions for fiscal year 1979.]

Title - Emergency mortgage purchase assistance should be Emergency Home Purchase Assistance.

[GAO RESPONSE: The title used in the report (see p. 16 of this final report) "Emergency Mortgage Purchase Assistance," is the title used in OMB and congressional budget and appropriations materials.]

Page 25, Table 4 - Special Assistance Function (Emergency) recorded borrowing authority should be 13.1 not 12.8.

[GAO RESPONSE: The recorded borrowing authority total (see p. 19 of this final report) as of the end of fiscal year 1978, and 1979, is \$12.8 billion. The total is based upon OMB budget document recordings adjusted to reflect OMB's revised budget treatment for the program adopted for the fiscal year 1978 budget. The new treatment made borrowing authority recordings reflect the full emergency standby authority provided in legislation. The relevant legislation has provided a total of \$12.8 billion in standby authority.]

(2) The following citations and charts should be changed:

page 8 - The gross borrowings for FY 1978 (which were taken from Table 109, page 402 in the 1978 Statistical Appendix but not noted as such) appear to be shown incorrectly, as the shading does not conform to other fiscal years.

page 11 - The citation in the first paragraph should be shown as 12 U.S.C. 635d (instead of 12 U.S.C. 635). Also, the first line of the citation should read: "...the Export-Import Bank of the United States is authorized to..." (not the Export-Import Bank of Washington).

page 24 - Incorrect citation. 17 U.S.C. 950 should be changed to 7 U.S.C. 903

page 84 - See comments for page 24

page 85 - See comments for page 24

page 87 - Reference should read: 68 Stat 94-95

[GAO RESPONSE: The graph, legal citations, and Eximbank reference have been changed in this final report to reflect Treasury's comments.]

(3) The report infers that the current practice of netting and rolling-over of borrowing authority in certain revolving fund loan programs is hampering congressional control on borrowing authority. However, we can not find any specific examples in the report nor have we had a response from the Congress on this matter.

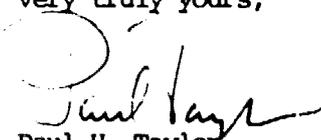
[GAO RESPONSE: See our first response to OMB's comments on the report--appendix VI.]

- (4) The report also wants to change the method that is used to compute borrowing authority from the present method to basing borrowing authority on gross obligational authority. Without additional explanation as to how this would work, it is impossible for Treasury to comment. We feel that the present method has been working very well and has allowed Treasury to exercise control over outstanding borrowings as stipulated by Congress. If the obligational method were used, we don't feel that Treasury could exercise the same degree of control since Treasury does not receive obligational data on an on-going basis except at year end.

[GAO RESPONSE: The report recommends that "budget authority" for revolving fund loan programs, not borrowing authority, be recorded to match authorized gross obligations or gross loan obligations. This would in no way impede Treasury's control over authorized borrowings as stipulated by the Congress. Treasury would continue to maintain records on agency borrowings repayments, and exercise appropriate control as required by law.]

We appreciate the opportunity to comment on the draft.

Very truly yours,



Paul H. Taylor

Mr. D. L. Scantlebury, Director
Division of Financial and General
Management Studies
United States General Accounting
Office
Washington, D. C. 20548

UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL ELECTRIFICATION ADMINISTRATION
WASHINGTON, D.C. 20250

OFFICE OF THE ADMINISTRATOR

NOV 15 1979

Mr. Henry Eschwege, Director
Community and Economic
Development Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Eschwege:

We have reviewed the draft report "Current Practices for Recording Budget Authority in Certain Revolving Fund Programs Impair Congressional Budget Control." The following are REA's comments, both general and specific.

A major flaw we find with the report is that it fails to respond or give credit in any way to the OMB Federal Credit Control Program established in OMB Circular A-11 dated May 25, 1979. The Federal Credit Control Program was designed specifically to overcome any problems of Congressional budget control associated with credit programs.

[GAO RESPONSE: In this final report, we briefly discuss the President's credit control proposals put forth in the 1981 budget (see p. 32).]

The "netting" procedure referred to in many places within this draft report is consistent with and is a direct result of the report of the President's Commission on Budget Concepts prepared in October 1967. The following background statement on the difference between Federal lending and spending programs is a direct quote from the commission's report.

Notwithstanding the great importance of including loans in any comprehensive statement of Federal Government activities, there also are important reasons why loans should be set forth separately from other expenditures within the budget totals. Loans, like other government expenditures, result in someone's acquiring cash, and the borrowed funds will presumably be spent. However, the borrower has assumed an obligation for subsequent repayment, plus interest, which distinguishes a loan transaction from other expenditures. There is substantial consensus among economists about the way in which loans and expenditures other than loans affect private spending decisions. There is considerable consensus, furthermore, as to the effect of these spending decisions on the economy and how such impact should be roughly calculated. There is much less agreement, however, on the measurement of how loans and other financial transactions affect the economy. (Scoring added)

The essence of this statement is that loans are different from direct expenditures. To present them in the budget on a gross basis in the budget authority or outlay totals or in the individual fund accounts would generally lead the Congress and the public to believe that loans and grants or other direct expenditures are synonymous. Obviously, the borrower's obligation to repay makes loans significantly different from the acceptance of Federal funds without such an obligation. The "netting" procedure has, since 1967, been used to reflect this basic difference. We believe that reflecting this return of funds to the Treasury must continue; and, therefore, we cannot agree with the suggestion to eliminate that procedure. See Appendix VI to PAD 77-25, August 30, 1977, copy attached.

[GAO RESPONSE: We reiterate from our earlier report cited above our position that the budget process is an evolving process, and that, while the recommendations of the President's 1967 Commission were valid when they were made, times have changed and the Congress has demanded a stronger voice in the budget process (e.g. passage of the Congressional Budget Act of 1974).

We believe that for the Congress to decide on budget totals and make priority allocations among functions under the new budget process, it must have complete information on the total levels of Federal activities. With full disclosure, including accounting for amounts in the budget on a gross basis, the Congress will be better able to use the budget information in establishing aggregate financial targets by functional category. The budget functions should include these total amounts.

We note that nothing in this position precludes separate identification within the budget's totals of amounts pertaining to loan programs.]

The report appears to use Budget Authority, Borrowing Authority, and/or Loan Authority as having the same meaning in some instances. GAO's own publication defining budgetary terms, PAD 77-9, should be useful in reducing any confusion.

[GAO RESPONSE: The report distinguishes among the terms, and refers to the cited GAO glossary of budgetary terms for further information (see p. 1).]

The proposed report implies that revolving fund arrangements are misleading to the Congress. All such funds are established by the Congress, and REA's revolving funds are reviewed on an annual basis by the Congress. Certainly the Legislative and Appropriations Committees' dealings with REA have not indicated to REA that they have been misled.

In establishing the Rural Electrification and Telephone Revolving Fund, the Congress placed into that account, as assets, all the prior loans made by REA. By capitalizing the account in this manner, the program was in a sense made largely self-perpetuating, the precise reason Congress indicated they had for establishing the account. The Congress further, realizing that receipts alone would not necessarily fund all future requirements, authorized the sale of loan assets and, in addition, appropriations to the account to cover interest subsidies and losses. No additional long-term borrowing authority is authorized for the account. Therefore, the statements on page 16 relating to lapsing of authority and on page 19 that a longer period of borrowing activity will result in total REA borrowing exceeding recorded borrowing authority could not possibly be true. Further, any borrowing authority recorded prior to the 1973 amendments is no longer meaningful and roll-over of borrowing authority does not apply to this account.

[GAO RESPONSE: The report's statements on lapsing (p. 11 of the final report) and borrowings exceeding recorded borrowing authority over a period of continued borrowing activity (p. 13 of the final report), are correct. As reflected in the column "2" entries in the relevant table of this report (p. 46), OMB's budget documents show lapses, termed "redemption of debt," for fiscal years 1977, 1978, and 1979. Furthermore, as may be seen in the same table, the margin by which recorded borrowing authority exceeds gross borrowings decreased from about \$1.4 billion at the end of fiscal year 1978 to about \$1 billion at the end of fiscal year 1979.

The recorded borrowing authority amounts discussed in the report are mostly, with the exceptions identified (see footnotes on p. 47), post-1973 amendments recordings. The report notes that this is a non-roll over netting account (see p. 44).]

The Congress has made no appropriations under the borrowing authorization in Section 3 of the Rural Electrification Act (quoted on page 24 of the proposed report) since 1973. Instead it has utilized the provisions of Section 301-305 of the Act in controlling the insured electric and telephone loan programs.

In summary, the Congress does through its appropriation process review the REA account on an annual basis. We have not in recent years been told or instructed by the Congress to report these items on any different basis. Since 1973 Congress has been approving REA insured loans on a gross loan obligation basis nearly consistent with the Federal Credit Controls to be established for the 1981 budget. If the Congress chooses, as the 1981 budget will propose, to extend the current obligational controls to "guarantee commitments" or to the Rural Telephone Bank, this will merely bring those activities under the same kinds of annual limitations that the revolving fund, used as a case example in this report, has been under for a number of years.

[GAO RESPONSE: The Congress' decision to set limits on REA insured loans on a gross loan obligations basis demonstrates the importance attached by the Congress to controlling gross levels of activity. Our recommendation to treat such authorized gross loan obligations as budget authority is a logical extension of this current congressional approach.]

Apparently the report in its narrow review of four loan revolving funds does not evaluate the "netting" process used throughout the budget to reflect the reduction in budget authority and outlays for other proprietary receipts from the public. (See the discussion on pages 28 and 34.) These receipts must be equally confusing in the Congressional Budget Control procedure.

[GAO RESPONSE: We have addressed in other reports the problems of using receipts to reduce reported budget authority and outlays. These include "Revolving Funds: Full Disclosure Needed for Better Congressional Control" (PAD-77-25, August 30, 1977), and "Federal Budget Outlay Estimates: A Growing Problem" (PAD-79-20, February 9, 1979).]

We appreciate the opportunity afforded us to provide our comments.

Sincerely,



ROBERT L. FERAGEN
Administrator

Attachment



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D. C. 20503

MAR 4 1977

Mr. Harry S. Havens
Director, Program Analysis
Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Harry:

This responds to your request for comment on your draft report: "Review of Controllability Issues of Revolving Funds". Except to observe that the report contains a great deal of valuable information, our comments relate primarily to the recommendations contained in the report and the discussion of the Impoundment Control Act contained in pages 100-104 of the draft.

We agree that it would be helpful, as your first recommendation suggests, if the Congress were to apply specific criteria consistently in determining the appropriate financing mechanism whenever new programs are enacted. Perhaps your recommendation should be modified to propose such criteria for consideration and adoption by the Congress. The Office of Management and Budget developed criteria some years ago. We use them in commenting on proposed legislation and, insofar as possible, in classifying new revolving funds established by law. In the case of newly established revolving funds, the Office of Management and Budget and Treasury reach agreement on the fund classification most appropriate under the terms of the authorizing legislation before the Treasury account symbol is assigned. We are at times hampered by the fact that technical financial terms frequently are used most imprecisely in the authorizing legislation. ^{1/}

Your second and third recommendations assume the adoption by the Congress of uniform criteria. If the Congress were to adopt such criteria and put them into effect, there would be no need for the reports to be required under the second recommendation, other than on an exceptions basis. While we would have no objection to the reviews required in the third recommendation, it would appear more appropriate for the administering agency of the executive branch to conduct the reviews and propose appropriate amendments to the authorizing legislation. However, the requirement for such reviews should not precede the adoption of the criteria mentioned in the first recommendation.

^{1/} GAO note 1: The order of recommendations in the final report differs somewhat from the draft report which went to the agency for comment.

For a number of reasons, we cannot agree with your fourth recommendation. First, our present system of accounting and budgeting for public enterprise funds conforms to the precepts laid down by the President's Commission on Budget Concepts; your recommendations do not. The point here is that the concepts established by the Commission created an integrated system with respect to grossing and netting. Your fourth recommendation ignores the interrelationships that must be considered if the Commission's concepts are to be changed.

Second, we do not agree that it is necessary for the budget summary information to disclose the gross accounting for collections and outlays in order for the Congress to consider the transactions of public enterprise funds in deciding on budget totals or making priority allocations among functions. Information on gross collections and disbursements is provided for every public enterprise revolving fund.

Third, and more important, we do not agree that it is appropriate for gross collections and outlays to be used as the basis for making priority allocations among functions. Such a recommendation assumes that the collections of public enterprise funds are transferable among functions on a continuing basis and are essentially unrelated to the outlays of the funds, but--by definition--they are not.

Fourth, we do not agree that such a change would not affect the current appropriations process or agency accounting for the individual accounts. Currently, collections by revolving funds are recorded as negative outlays, and balances are reported on a net basis (e.g., in the Treasury Combined Statement). Our budget presentation system uses the actual year data (on a net basis) from the accounting system as a base. The intent of your recommendation relative to budget totals is unclear. If the intent is that transactions will continue to be recorded in the accounts on a net basis, as at present, but that amounts will be shown in the budget schedules on a gross basis, then the relationship of the budget schedules to the accounting records would be confused. If on the other hand, it is intended that the budget totals include the transactions of the public enterprise funds on a gross basis, then serious questions are raised concerning the effect of the revised concept on the meaning of the budget totals. These questions are not discussed in the report.

Fifth, your recommendation applies only to public enterprise funds and would, therefore, appear to apply different accounting

and budget presentation rules to public enterprise funds from those for intra-governmental revolving funds. We doubt seriously the merit of having such a difference. If your recommendation were to be adopted, it would have far-reaching consequences for our accounting and budgeting systems and would have to be carefully worked out with Treasury and the Office of Management and Budget.

[See GAO note 2, page 147.]

More generally with regard to the draft report, we do not understand the basis for a number of statements contained in it. For example, we do not understand the inference of widespread account misclassification when the report specifically states that no individual accounts were studied on an in-depth basis. Of course, mistakes are made in classifying accounts, and sometimes the activities carried on within an account change over time and invalidate a previously correct classification. We correct errors when we learn of them. Your report contains inferences of widespread errors but evidence of only a few, some of which were being corrected before the General Accounting Office made its study.

[See GAO note 2, page 147.]

We do not agree that congressional control over a program is necessarily weakened when that program is financed by a revolving fund. Indeed, your report contains ample evidence that the Congress can and does control the activities of revolving funds when it chooses to do so. Basically, the Congress chooses between generic control through authorizing specific types of automatic or semi-automatic operations and specific control through annual appropriations action including the establishment of a limitation on operations by a revolving fund. But there is control and accountability in either case.

The report's discussion of the effect on budget deficits of net outlay changes of public enterprise funds is misleading. It implies that the \$4.2 billion increase in 1975 net outlays, from the 1975 budget estimate to actual disbursement, occurred

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without congressional approval. Of this amount, \$3.2 billion is the direct result of congressional action: \$2.0 billion from the Government National Mortgage Association special assistance market operations that complied with the will of Congress to spend more on housing, and \$1.2 billion from the Federal Home Loan Bank Board tandem plan spending appropriated by Congress. Further, it must be recognized that the impact of those changes upon the budget deficit would have been no different if the transactions had been stated on a gross basis, and that Congress can control the level of activity of the fund if it desires to do so. Moreover, the charge that accounting for revolving funds on a net outlay basis "is misleading and understates the true magnitude of Government activities as well as the impact of individual revolving fund programs" is not substantiated--and is inconsistent with both the recommendations of the President's Commission on Budget Concepts and the widely accepted methods used to measure economic activity, e.g., in the gross national income and product accounts.

The draft report discusses some of the relationships between revolving funds and the Impoundment Control Act (pp. 100-104).

[See GAO note 2, page 147.]

We believe that the following statements (related to the Impoundment Control Act) are not supported by the draft:

[See GAO note 2, page 147.]

"GAO has held in several instances that the President has failed to report impoundments of revolving fund budget authority." (page 103) Two examples are used in the draft to illustrate "inconsistent" Executive Branch compliance. They involve: (1) reserved funds for a program that was discontinued in January, 1973, and (2) funds that the agency involved (HUD) has not considered to be budget authority. According to a ruling of the Attorney General, the funds referred to in the first case are not subject to the Act, since the reserve action was taken before the Impoundment Control Act became law. In the second case, GAO itself concluded in a letter of December 23, 1976, (B-115398) that "there no longer exists

an impoundment of section 236 reserve funds..." This information should be included in the report; otherwise, the draft gives the impression that GAO still believes that a withholding exists that constitutes an "unreported rescission." Alternatively, the two statements quoted above and the discussion of them might be dropped from the report.

Reporting the activities of revolving funds under the Impoundment Control Act requires the application of more judgment than does reporting in most other areas. The very nature of revolving funds makes reporting requirements under the Impoundment Control Act a little more ambiguous for them because, as the GAO report states: [See GAO note 2, page 147.]

for some revolving funds, there is no clear statement of congressional intent about the appropriate level of financial activity. Unfortunately, your draft report makes no recommendations that would help to clarify this ambiguity.

We suggest that a conclusion be added to this section of the report, either (1) suggesting improvements, or (2) reemphasizing the special nature of reporting of revolving funds under the Impoundment Control Act.

I trust that these comments will be helpful to you. Office of Management and Budget staff will be glad to work with the General Accounting Office and with Treasury in evaluating our current system for budgeting and accounting for revolving funds and considering any necessary improvements in them.

Sincerely,

Dale R. McOmber

Dale R. McOmber
Assistant Director
for Budget Review

GAO note 2: Deleted comments refer to material contained in the draft report which has been revised or which has not been included in the final report.